



Albuquerque Bernalillo County Water Utility Authority

A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO, USA



COMPREHENSIVE ANNUAL FINANCIAL REPORT



JULY 1, 2007 THROUGH JUNE 30, 2008

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

A Component Unit of the City of Albuquerque, New Mexico

COMPREHENSIVE ANNUAL FINANCIAL REPORT

July 1, 2007 through June 30, 2008

**Albuquerque Bernalillo County Water Utility Authority
A Component Unit of the City of Albuquerque, New Mexico
Comprehensive Annual Financial Report
Year ended June 30, 2008**

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INTRODUCTORY SECTION



Albuquerque Bernalillo County Water Utility Authority

February 9, 2009

Board of Directors
Albuquerque Bernalillo County Water Utility Authority

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Albuquerque Bernalillo County Water Utility Authority (Authority) for the fiscal year ended June 30, 2008. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the Authority's records be thoroughly examined and audited each year by independent public accountants. The Authority is a component unit of the City of Albuquerque.

The Comprehensive Annual Financial Report consists of four major sections:

1. The Introductory Section includes the Transmittal Letter with the Authority's Organizational Chart, and a listing of the Authority's Officials, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.
2. The Financial Section which includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2008, explanatory footnotes, and supplementary information.
3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.
4. State Compliance and Operational Findings includes certain schedules required by the State Auditor's Office.

This report was prepared by the City of Albuquerque's Department of Finance and Administrative Services. The City management assumes full responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. Moss Adams, Certified Public Accountants, has issued an unqualified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2008. As indicated by the opinion of the City's independent auditors, the report fairly presents the financial position and results of operations of the Authority as measured by the financial activity of its various funds. The report has been set forth in a manner that will give the reader a broad understanding of the Authority's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the Authority's financial activities. The independent auditor's report is located at the front of the financial statements.

Management's Discussion & Analysis (MD&A) immediately follows the independent auditors report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it

Profile of the Authority

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City become effective July 1, 2007 and runs through June 30, 2012. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Members of the Water Authority Board at June 30, 2008:

Commissioner Deanna Archuleta, Chair
Councilor Isaac Benton, Vice-Chair
Councilor Michael J. Cadigan
Mayor Martin J. Chavez
Commissioner Teresa Cordova
Commissioner E. Tim Cummins
Councilor Trudy Jones

Ex Officio Member at June 30, 2008:

Pablo Rael, Trustee, Village of Los Ranchos

Summary of Local Economy

Bernalillo County with a population of approximately 629,000 includes the City of Albuquerque with a population of about 518,000 which is New Mexico's largest city and economic center. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval and Valencia Counties with a population of approximately 835,000. Albuquerque/Bernalillo County is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The area's economy is diversified with retail, healthcare, government and manufacturing industries. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.

The Albuquerque economy has an industry composition not unlike that of the U.S. as a whole. Manufacturing, while a smaller part of the Albuquerque economy, has not declined in importance as in the U.S. where manufacturing has declined substantially since the 1960s.

Albuquerque MSA Employment in Thousands

NAICS CATEGORY				
Total Nonfarm Employment (does not include military)	396.39	100%	0.5%	1.8%
Natural Resources and Mining and Construction	29.69	7%	-4.7%	4.8%
Manufacturing	22.97	6%	-4.8%	-1.0%
Trade, Transportation, and Utilities	69.42	18%	1.8%	1.0%
Information	9.25	2%	-1.3%	-2.6%
Financial Activities	19.16	5%	0.0%	0.3%
Aggregate of Services	153.71	39%	1.7%	2.6%
Professional and Business Services	64.33	16%	1.3%	2.2%
Educational and Health Services	49.80	13%	2.5%	3.4%
Leisure and Hospitality	39.58	10%	1.1%	2.3%
Other Services	12.36	3%	1.4%	1.3%
Government	79.84	20%	1.1%	1.8%
MILITARY	6.475	NA	0%	0.3%

In the near term, the Albuquerque/Bernalillo County area is slowing as is the nation. Construction, particularly single family construction, has fallen off. Although unemployment remains relatively low and averaged 3.5% in FY/08, employment growth has slowed. In manufacturing Intel laid off over 1,000 workers eclipse aviation laid off over 600 workers, and the entire sector was down 4.8%. Even with this slowdown several large manufacturing firms have recently moved to the Albuquerque area and/or expanded. Albuquerque/Bernalillo County is well positioned to attract new investment by suppliers, customers, and other producers. The national labs are a strength in the Albuquerque/Bernalillo County economy. Sandia National Laboratories (SNL) has devoted a great deal of research to terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

Additional historic economic information is presented in the statistical section of this report.

Long-term financial planning

The Authority uses a ten year financial plan that takes into account resources, expenditures, capital needs and debt service requirements. The financial plan provides the Authority with the ability to compare the impact of future financial activity and issues to determine the most appropriate method of maintaining the Authority's financial stability. The Authority reviews water and sewer rates bi-annually to insure that inter and intra class equity is maintained.

Effective July 1, 2007, the Authority Board approved new policies that will impact financial planning for the future. A Rate Reserve Fund of one million dollars funded annually for five years was established to help offset fluctuations in revenue in the future and mitigate the need for rate increases. An annual adjustment to the Utility Expansion Charge (UEC) based on the building cost or construction cost indices was implemented. This adjustment will allow the Authority's capital program to maintain constant dollars with inflationary increases in the future. A Water Supply Charge was established to provide the resources for the Authority to begin the planning, acquisition and development of new water sources to meet the demands of new customers outside the established service area without impacting existing customers.

The Authority also develops a Decade Plan that guides the capital implementation program (CIP). The projects embodied in the plan are identified for near-term and future work, and include both rehabilitation needs and growth-related activities. The Authority's financial planning considers basic program needs as part of its revenue requirements, and by policy requires financing 50 percent of basic CIP work from water and sewer rate revenues. The balance of capital funding is obtained through revenue bond or loan financing. Growth-related projects are funded through Utility Expansion Charge (UEC) revenues, either by reimbursing capital investments made under the terms of a Developer Agreement, or by direct

appropriations to CIP projects. The development of a Decade Plan allows for long-term planning for both initial construction and rehabilitation costs as well as additional operating costs to operate and maintain new water and wastewater facilities.

The Authority budgets for operations and capital implementation are driven by the Board approved Five Year Goals and one year objectives.

Relevant Financial Policies

Budgetary Controls

The fiscal year 2008 budget provided the financial basis of operation for the Authority and the Water Utility Department through June 30, 2008. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City of Albuquerque financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2008, it is at the fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2008 were not reappropriated in fiscal year 2009.

Cash Management

Pursuant to the Memorandum of Understanding, the Authority participates in the pooled cash investment program as outlined in the Fiscal Agent Ordinance of the City. Cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. The City's policy is to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. Total investments and deposits in the City's common investment pool were \$666 million at June 30, 2008. The Authority had an average of \$194 million invested in the City's investment pool. The Authority had no borrowings in fiscal year 2008 which resulted in a decrease in the Authority's average investment for fiscal year 2008. The City portfolio average yield for fiscal year 2008 was 3.789%. Interest earned by the Authority totaled \$7.3 million for fiscal year 2008.

Risk Management

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. Transfers to the Risk Management fund from the Authority for fiscal year 2008 were \$4.51 million compared to transfers in the prior year of \$4.93 million. Total claim reserves (current and long-term), including the Authority, were \$60.10 million as of June 30, 2008, a \$3.09 million increase from \$57.01 million in the previous year.

The Authority has maintained a conservative approach to financial matters, which includes a twelve year or less debt term for basic capital financing, a minimum of fifty percent cash financing for basic capital projects and a minimum of 133% annual debt service coverage. The Authority also submits quarterly financial status reports for both capital and operating revenues and expenditures to the Authority Board for review.

Major Initiatives

The transition of the Water Utility Department from the City to the Authority became effective July 1, 2007. The transition moved employees formerly under the City to the Authority. In addition the Authority and the City entered into a new Memorandum of Understanding (MOU) that became effective July 1, 2007. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City. The transition went extremely smooth as a result of the planning and cooperation between the City and Authority. The Authority negotiated new union contracts with all represented unions that became effective in Fiscal Year 2009.

The Authority's San Juan-Chama Drinking Water Project is scheduled for completion in the first half of fiscal year 2009. This Project will supply up to 70% of the metropolitan area's future water. San Juan-Chama water diverted from the Rio Grande River will be transported to a state-of-the-art treatment plant, from which purified water will be delivered to Albuquerque area homes and businesses.

In fiscal year 2008, the Water Resources Management Strategy was updated and provides for a continuation of the policies, projects and recommendations in the original strategy adopted in 1997. The strategy provides policies and recommendations for continuation of the need to shift from sole reliance on the aquifer to renewable supplies including the San Juan-Chama Drinking Water Project. The strategy, a key component of which is conservation, is designed to ensure Water Authority customers a safe and sustainable water supply through the year 2060 and beyond.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Authority has received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2007. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

We would like to thank the Board for their support in the planning and implementation of the financial affairs of the Authority. The Authority also wishes to express its appreciation to the City's Department of Finance and Administrative Services who contributed to the preparation of this report and recognize in particular the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report.

Respectfully submitted,



Mark S. Sanchez
Executive Director



Stanley Allred
Chief Financial Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Albuquerque Bernalillo County
Water Utility Authority
New Mexico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

Albuquerque Bernalillo Co. Water Utility Authority

New Mexico

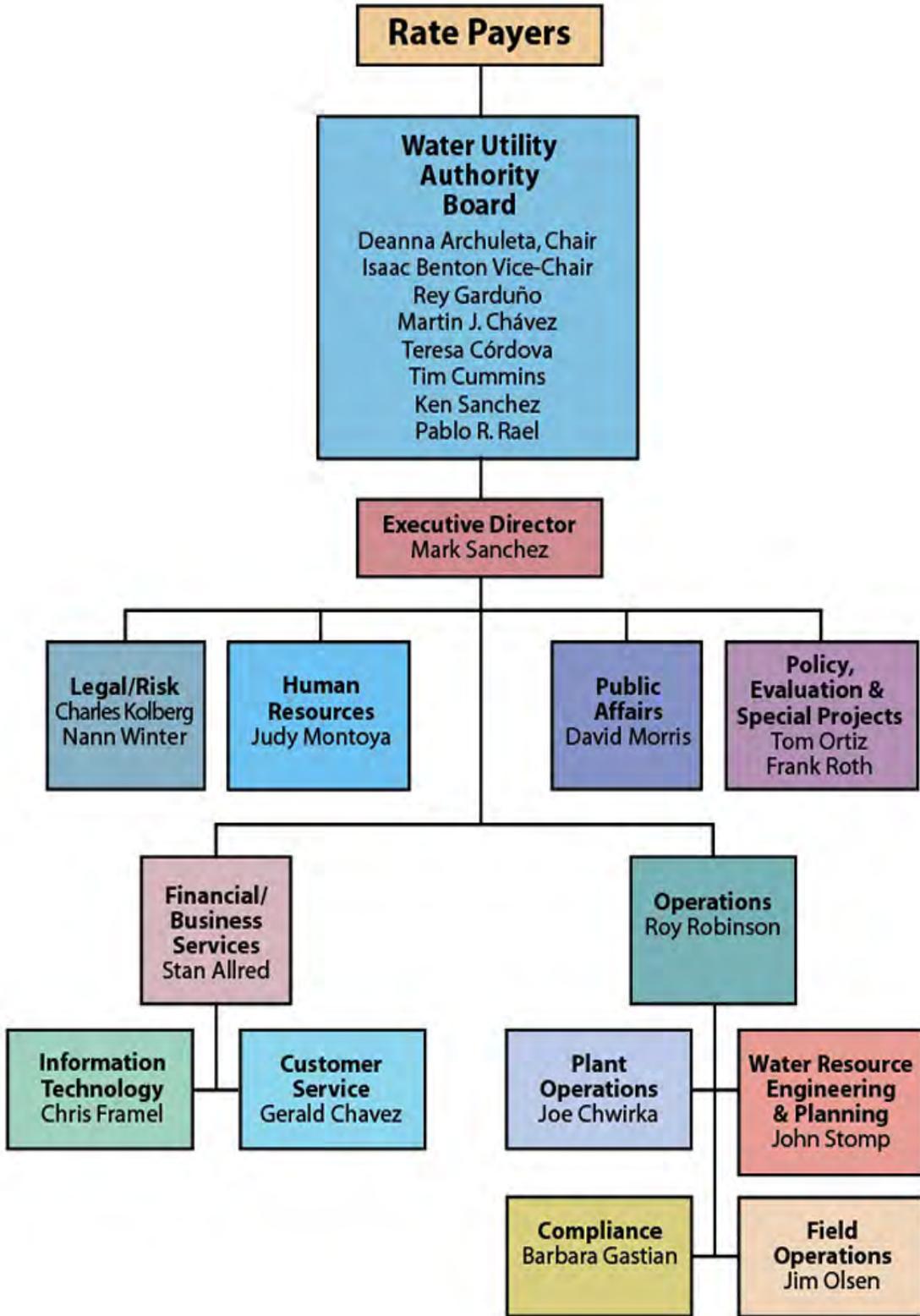
For the Fiscal Year Beginning

July 1, 2007

President

Executive Director

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
ORGANIZATION CHART**



FINANCIAL SECTION

Independent Auditors' Report

T 505-830-6200

F 505-830-6282

Albuquerque Bernalillo County
Water Utility Authority and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2008, as listed in the table of contents. We have also audited the budgetary comparison as of, and for the year ending June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in note 1, the financial statements of the Authority are intended to present the financial position, and the changes in financial position and cash flows of the Authority. The financial statements do not purport to, and do not, present fairly the financial position of the City of Albuquerque as of June 30, 2008 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008, the changes in its financial position and its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly the budget comparisons presented as supplementary information thereof for the year ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

Albuquerque Bernalillo County
Water Utility Authority and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

In accordance with *Government Auditing Standards*, we have also issued our report for the City of Albuquerque (fiscal agent for the Authority) dated February 9, 2009, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 15 through 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements, and the additional schedules listed as "other supplementary information" in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Moss Adams LLP

Albuquerque, New Mexico
February 9, 2009

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

As management of the Albuquerque Bernalillo County Water Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

Accrual Basis

The assets of the Authority exceeded its liabilities at the close of fiscal year 2008 by \$748.6 million (net assets). Of this amount, \$40.0 million (unrestricted net assets) may be used to meet the Authority's ongoing obligations to creditors in subsequent accounting periods.

The Authority's total net assets increased by \$19.7 (2.7%) million during the year. Unrestricted net assets decreased by \$16.4 million (29.1%). Unrestricted net assets increased other than for the reclassification of purchased water rights from unrestricted net assets to assets invested in capital assets net of related debt.

The Authority's total long-term obligations increased by \$94.8 million (16.8%) during the current year. Long-term debt increased by \$94.6 million and additions to accrued vacation, sick leave increased by \$.2 million.

Total revenues increased in fiscal year 2008 by \$8.6 million to \$171.1 million from the prior fiscal year. Total expenditures increased in fiscal year 2008 by \$20.2 million to \$163.4 million from the prior fiscal year.

Cash Basis

Cash of the Authority increased by \$29.5 million to \$144.18 million at the close of fiscal year 2008. Non-restricted cash increased by \$4.99 million, cash with fiscal agents held for debt service decreased by \$2.55 million and non-current restricted cash increased by \$27.06 million. Non-restricted cash at the close of fiscal year 2008 was \$35.81 million.

Net cash provided by operating activities increased by \$2.76 million to \$71.42 million at the close of the fiscal year. Cash received from customers increased by \$10.78 million. Cash paid to or on behalf of employees increased by \$3.16 million and cash paid for goods and services increased by \$5.94 million. Other operating cash received increased by \$1.08 million.

Net cash used for capital and related financing activities was \$49.50 million compared to \$123.15 million in fiscal year 2007. Proceeds from debt borrowings were \$135.95 million. Utility expansion charge receipts were \$11.07 million, down from \$12.52 million in fiscal year 2007 and \$16.04 million in fiscal year 2006, illustrating the continuing decline in local construction activity. Debt service costs including issuance costs were \$66.62 million, virtually identical to fiscal year 2007. Payments for the acquisition and construction of capital assets were \$131.45 million down from \$208.04 million in fiscal year 2007 and reflected the completion of several individual projects within the Drinking Water Treatment Plant project.

Investment income was \$7.61 million down from \$12.46 million in fiscal year 2007 and mirrored the national decline in interest rates experienced during fiscal year 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This comprehensive annual financial report also contains other supplementary and statistical information in addition to the basic financial statements.

Basic Financial Statements

The Authority's financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on the Authority's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating, absent extraordinary events.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

Basic Financial Statements, continued

The *statement of revenues, expenses and changes in net assets* presents information showing how the Authority's net assets changed. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *statement of cash flows* reports cash receipts, cash payments and net changes in cash resulting from operating activities, capital and related financing activities and investing activities for the fiscal year.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and statistical information.

FINANCIAL ANALYSIS

As previously noted, net assets may serve as a useful indicator of whether or not the financial position of the Authority is improving or deteriorating.

The following is a comparative analysis of net assets for the most recently completed fiscal year and the prior fiscal year. Also presented is a schedule of the changes in net assets.

Condensed Statement of Net Assets
(Amounts in thousands)

	<u>2008</u>	<u>2007</u>	<u>Amount Change 2007 - 2008</u>	<u>Percent Change 2007 - 2008</u>
Assets:				
Current assets	\$ 92,877	\$ 87,714	\$ 5,163	5.9
Non-current assets other than capital assets	81,328	83,405	(2,077)	(2.5)
Capital assets, net	<u>1,260,006</u>	<u>1,161,094</u>	<u>98,912</u>	<u>8.5</u>
Total Assets	<u>1,434,211</u>	<u>1,332,213</u>	<u>101,998</u>	<u>7.7</u>
Liabilities:				
Current liabilities	68,257	77,759	(9,502)	(12.2)
Long-term bonds and notes payable	617,194	524,955	92,239	17.6
Other non-current liabilities	<u>125</u>	<u>544</u>	<u>(419)</u>	<u>(77.0)</u>
Total Liabilities	<u>685,576</u>	<u>603,258</u>	<u>82,318</u>	<u>13.6</u>
Net Assets:				
Invested in capital assets, net of debt	698,064	666,487	31,577	4.7
Restricted	10,552	6,003	4,549	75.8
Unrestricted	<u>40,019</u>	<u>56,465</u>	<u>(16,446)</u>	<u>(29.1)</u>
Total Net Assets	<u>\$ 748,635</u>	<u>728,955</u>	<u>19,680</u>	<u>2.7</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

Condensed Schedule of Changes in Net Assets
(Amounts in thousands)

	<u>Amount Change</u>	<u>Invested in Capital Assets</u>	<u>Restricted</u>	<u>Unrestricted</u>
Assets:				
Current assets	\$ 5,163	\$ -	\$ (11,451)	\$ 16,614
Non-current assets other than capital assets	(2,077)	25,447	1,024	(28,548)
Capital assets, net	<u>98,912</u>	<u>98,912</u>	-	-
Total Assets	<u>101,998</u>	<u>124,359</u>	<u>(10,427)</u>	<u>(11,934)</u>
Liabilities:				
Current liabilities	(9,502)	-	(14,976)	5,474
Long-term bonds and notes payable	92,239	92,239	-	-
Other non-current liabilities	<u>(419)</u>	<u>543</u>	-	<u>(962)</u>
Total Liabilities	<u>82,318</u>	<u>92,782</u>	<u>(14,976)</u>	<u>4,512</u>
Change in Net Assets	19,680	31,577	4,549	(16,446)
Net Assets, July 1	<u>728,955</u>	<u>666,487</u>	<u>6,003</u>	<u>56,465</u>
Net Assets, June 30	<u>748,635</u>	<u>698,064</u>	<u>10,552</u>	<u>40,019</u>

Since capital assets themselves are not intended to be used to liquidate liabilities, resources to repay the debt associated with the capital assets must be provided from other sources. Net assets invested in capital assets are used to provide water and wastewater service and are not available for future spending.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

Schedule of Revenues, Expenses and Changes in Fund Net Assets
Using Budgetary Functional Categories of Expenses
(Amounts in thousands)

	<u>2008</u>	<u>2007</u>	<u>Percent Change 2007 - 2008</u>
Operating revenues:			
Water charges including reuse	\$ 69,732	\$ 63,373	10.0
Sewer charges	47,684	46,772	1.9
Strategy implementation fee	24,334	22,815	6.7
Franchise fees billed	5,482	4,655	17.8
High consumption water surcharges	3,467	2,256	53.7
Administrative fees	949	763	24.4
Other operating revenues	<u>584</u>	<u>400</u>	<u>1.5</u>
Total charges for services	<u>152,232</u>	<u>141,034</u>	<u>7.9</u>
Operating expenses:			
Program Expenses:			
Water plant maintenance	11,483	9,789	21.0
Water plant operations	10,719	9,253	15.8
Wastewater treatment	9,816	9,776	-
Wastewater collection	7,005	6,428	9.0
Finance	5,457	5,673	(3.8)
Compliance	4,568	3,006	52.0
Water resources management	4,466	2,649	68.6
Customer services	4,090	4,081	-
Water distribution maintenance	3,458	4,088	(15.4)
Information systems	2,959	2,256	31.2
Utility development	1,569	1,320	18.9
Water Authority	1,362	1,068	27.5
Strategy Implementation	1,074	239	449.4
Strategic support	900	1,188	(24.2)
San Juan Chama	849	1,170	(27.6)
Human resources	825	-	100.0
North I-25 reuse	432	350	23.4
Low income utility credit	227	226	-
Administrative Expenses:			
Franchise fees paid	5,519	5,458	1.1
Administrative services paid to City of Albuquerque	2,095	2,567	(18.4)
Other Operating Expenses:			
Depreciation	60,906	55,926	8.9
Non-capital expenses paid in a capital project fund	668	-	100.0
Amortization	393	392	-
Bad debt expense	<u>339</u>	<u>-</u>	<u>100.0</u>
Total operating expenses	<u>141,179</u>	<u>126,903</u>	<u>11.2</u>
Operating income	11,053	14,131	(21.8)
Non-operating revenues (expenses):			
Utility expansion charges	11,075	12,516	(11.6)
Interest on investments	6,443	8,936	(27.9)
Interest expense	(21,781)	(15,889)	37.1
All other	<u>951</u>	<u>(404)</u>	<u>100.0</u>
Income before capital contributions and transfers	7,741	19,290	(59.9)
Capital contributions	<u>11,939</u>	<u>15,448</u>	<u>(22.7)</u>
Change in net assets	19,680	34,738	(43.3)
Net assets, July 1	<u>728,955</u>	<u>694,217</u>	<u>5.0</u>
Net assets, June 30	<u>\$ 748,635</u>	<u>\$ 728,955</u>	<u>2.7</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

Analysis of Changes in Net Assets

Operating Revenues and Expenses

Water revenue increased 10% from 2007. Precipitation for FY2007 was 16.85 inches which was 10.29 inches above the 6.56 inches for FY2008. The Authority pumped approximately 3.8 billion gallons more water in FY2008 versus FY2007. These two factors contribute to the increase in revenue. The dry summer in FY2008 also contributed to increased summer watering causing an increase in water surcharge revenue received from customers.

San Juan Chama Strategy Implementation revenue increased 6.7%. The fee structure is aimed more at charging commodity usage than fixed fee and moves in the opposite direction from the success of conservation efforts. Revenues generated from this fee are designated for the purpose of the San Juan Chama Drinking Water Project.

The largest operating expense component of the Authority is personnel costs. In FY2008, 17 new positions were added. Nine of these positions were to support the operation of the Surface Water Treatment Plant. Three positions were transferred from City Storm to the Authority and the remaining five positions were to support operations in Customer Services, Water Resources Management, Compliance and in-house legal services in Water Authority Administration.

The Safety division was reassigned to the Compliance Program. Strategic Implementation increased as a result of the additional staff added for the Drinking Water Treatment Plant and the operation expenses associated with bringing the plant on-line. Increases in fuel, utility and chemical costs also contributed to the increase in operating expenses. In February 2008, the Authority Board approved a budget amendment to increase the appropriation in Water Resources Management by \$1.075 million for the water conservation rebate program.

Depreciation expense increased \$5.0 million and will continue to increase as water and wastewater infrastructure is placed into service for our customers.

Utility Expansion Charge (UEC) revenue decreased by more than 11% in 2008. The UEC is the charge for new connections to the water and sewer system. The Authority has seen this revenue source decrease due mostly to the slowing of the economy and the housing industry in particular.

Investment income shows a decrease of \$2.5 million which reflects the nationwide decrease in interest rates during 2008.

The increase in interest expense of 37.1% reflects the significant new debt incurred in recent years to finance the San Juan Chama Drinking Water Project and an expanded Basic capital program.

Financial statement investment income as reported above decreased by \$2.49 million while cash basis investment income decreased by \$4.85 million. The difference is due to the financial statement entries that are made to record capitalized interest in the capital project funds.

OPERATING FUNDS BUDGETARY HIGHLIGHTS

The Authority's final fiscal year 2008 operating budgets were virtually unchanged from the original budgets primarily because the increase in water charges made up for the lower than forecast utility expansion charge and allowed spending to remain unchanged. In February 2008, the Authority Board approved a budget amendment that appropriated an additional \$1.075 million to Water Resources Management for the water conservation rebate program and \$1.404 million from fund balance to the MIS Development capital project. In FY08, a policy decision was made to reserve funds for rate stabilization and \$1 million was reserved for this purpose.

Budgeted and actual revenues, other than transfers from non-restricted cash to cash restricted for debt service, increased from 2007. The majority of the increase was from water and sewer charges. These revenues were higher due to these factors: the precipitation for FY2008 was 10.29 inches lower than FY2007 and below the average rainfall of 8.50 inches and the Authority pumped approximately 3.8 billion gallons more water in FY2008 versus FY2007.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

Budgeted expenses were set at levels greater than budgeted revenues. There were concerns about revenue realization and expenditure requirements leading to the decision to fund some of the budget from fund balance. There were uncertainties concerning the utility expansion charge revenue which mirrors the cyclical nature of construction activity and the general economic outlook. On the expense side, there were budgeted increases in personnel for the new positions, fuel, chemicals, power, contractual services, and repairs and maintenance that were considered very likely to be realized. While there were concerns about revenue realization at budgeted levels, the expectation was that expenses would be at budgeted levels.

Actual expenses, other than transfers and debt service, were \$227,000 less than budgeted.

CAPITAL FUNDS BUDGETARY HIGHLIGHTS

The Authority's Capital Implementation Program (CIP) consists of a ten-year Decade Plan updated biennially in even numbered fiscal years with two, four, six, eight and ten year planning elements and includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Authority Board with at least one public hearing and due deliberation. In even numbered fiscal years, the Decade Plan must be updated and approved by the Authority Board before that year's Capital program budget can be approved. This policy ensures there is always an approved two year planning element in place for every approved annual Capital program budget.

The Authority's Budget Policies and Procedures Ordinance, as required by the State Statutes creating the Authority, specifies that the Authority shall annually review and adopt one-year objectives related to the five year goals for the Authority. This requirement is applicable to the Capital program as well as the Operating program.

The CIP is comprised of a Basic program and a non-Basic program. The Basic program is a level of effort for which the rate structure is intended to provide a recurring protected source of revenue. The non-Basic program is work which has a commitment of a dedicated revenue stream outside of the recurring revenues used for support of the Basic program. The Authority Board through its adoption of the Rate Ordinance and the setting of goals and objectives defines the Basic program on an annual basis. For fiscal year 2008, the Board approved a \$30 million rehabilitation program and a \$14 million growth program. These dollar goals were unchanged for fiscal year 2009.

Available revenues for the Basic program in fiscal year 2008 were \$42.5 million or \$1.5 million less than gross revenues due to the Basic program overspending in fiscal year 2007. Actual Basic program spending in fiscal year 2008 was \$37.3 million which created a \$5.2 million carryover to fiscal year 2009. The fiscal year 2009 Basic program remained at \$30 million for rehabilitation projects and \$14 million for growth projects which with the carryover means there are \$49.2 million of available revenues.

The non-Basic capital program for fiscal year 2008 was comprised of three significant projects.

The largest of these and the largest capital project ever undertaken by the Authority is the construction of a Drinking Water Treatment Plant, associated pipelines and pump stations. This project is one of the projects identified in the Water Resources Management Strategy (WRMS) adopted in 1997. Funding for the WRMS projects come from a Sustainable Water charge billed to all water customers. The revenue generated is intended to be sufficient to cover the operating costs of the Treatment Plant and the debt service used to pay for its construction. Start up of the Plant occurred in December 2008 with full scale operation scheduled for fiscal year 2010.

The Valley Utilities Projects are a series of water and sewer construction projects managed by the Bernalillo County Public Works Department in the unincorporated areas of Bernalillo County and are designed to provide residents the ability to connect to the Authority's infrastructure and eliminate the use of wells and septic tanks. The Authority is providing the majority of funding for each project. Funding for the Valley Utilities Projects is provided by specific debt borrowings and/or Utility Expansion Charge (UEC) revenue as determined by the Board. Through fiscal year 2008, the Board committed \$31 million to Valley Utilities Projects. Payments to date as of the end of fiscal year 2008 were \$18.9 million.

The Board, by Ordinance and through the approved Goals and Objectives, has directed the Authority to implement an asset management program. In order to accomplish this directive, the Board approved in fiscal year 2008 a transfer of \$1.404 million from the operating budget to capital for the updating and implementation of current versions of the Maximo software at Water Systems and at Water Reclamation. Another \$1.252 million was approved by the Board for fiscal year 2009. The upgrades to the Maximo system will allow for its integration with the Authority's GIS.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

CIP SPENDING IN FISCAL YEAR 2008
(Amounts in thousands)

Basic Program		
Rehabilitation	\$	25.6
Growth		<u>11.7</u>
Total Basic Program		<u>37.3</u>
Non-Basic Program		
Drinking Water Treatment Plant		80.7
Valley Utilities Projects		11.2
Maximo Update		.4
All other		<u>1.3</u>
Total Non-Basic Program		<u>93.6</u>
Total CIP Expenses	\$	<u>130.9</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
(net of depreciation, in thousands)

	<u>2008</u>	<u>2007</u>	<u>Percent Change 2007 – 2008</u>
Land *	\$ 23,232	\$ 23,232	0.0
Buildings and improvements	2,211	692	320.0
Improvements other than buildings	834,147	785,880	6.1
Machinery and equipment	54,017	27,120	99.2
Purchased water rights, net	<u>39,648</u>	<u>29,622</u>	<u>33.8</u>
Capitalized assets	953,255	866,546	10.0
Construction work in progress *	<u>306,751</u>	<u>324,170</u>	<u>(5.4)</u>
Total capital assets	<u>\$1,260,006</u>	<u>\$1,190,716</u>	<u>5.8</u>

- assets not being depreciated or amortized

Other Basic Program projects ongoing or completed in fiscal year 2008 include:

Isleta Boulevard Reconstruction Phase 2. A joint project with Bernalillo County which includes rehabbing large diameter interceptor lines, small diameter water and sewer lines, service lines and meter boxes and sewer line extensions. The Authority has committed \$4.2M through Amendment 4 to this project.

Coronado and Webster Pump Stations. Construction of two pump stations needed to distribute San Juan Chama water to the far northeast heights as part of the Utility's arsenic mitigation plan.

College Arsenic Removal Facility. The construction of the arsenic removal demonstration facility was completed in fiscal year 2008. The treatment system is part of the Authority's strategy to comply with the new arsenic standard that incorporates the surface water system, ground water wells and transferring ground water from the east side of Albuquerque to the west side. This is the first of several planned arsenic removal facilities.

Low Income Water/Sewer Connections. Through its participation in the Partners in Improvement and Protection of the Environment (PIPE) program the Authority has for more than a decade provided financial assistance to low income residents connecting to the Utility sewer system. The Second Supplemental Agreement now allows for the inclusion of water system connections and authorizes reimbursement from the Authority for connecting to the water system.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

Conversion of Utility Billing System. The current Utility billing system, a PeopleSoft product called Customer Information System (CIS) went live on July 1, 2005. Oracle Corporation since acquired PeopleSoft and the affiliated consulting firm that did the CIS implementation project management. Oracle has decided to discontinue support for CIS as of July 2009 and make the Oracle system, called Customer Care & Billing (CC&B) its utilities software product. Work on the conversion to CC&B is well underway with a go live date of April 1, 2009.

Water Facility Renovation. This on-going multi-year program is rehabilitating pump stations, steel and concrete reservoirs, abandoning and plugging old wells and replacing gas chlorine disinfection facilities with safer sodium hypochlorite generating facilities. Some work is being done in conjunction with the installation of the Drinking Water Project pipelines. Other work is on reservoir overflow and security modifications.

Interceptor Sewer Rehabilitation. Interceptor rehab may be the most serious rehab issue facing the Authority. Interceptor sewers are the largest diameter lines (15" – 84") and carry large flows from extensive portions of the service area that cannot easily be rerouted. The Authority provides funding for emergency repairs while working on identifying high risk interceptor sewers most subject to deterioration and loss of serviceability for lining or renewal on a planned basis.

Developer Agreements. The Authority requires developers of new service areas to construct the necessary major facilities and then receive reimbursement from utility expansion charges as connections are made to those facilities. The use of developer agreements will expand rapidly in the near future as very large developments in the south and west sections of the service area are in the planning stages.

Debt Administration

At the end of fiscal year 2008, the Authority had \$654.6 million in bonds, notes and loans outstanding including unamortized balances, an increase of \$94.6 million from the prior year. The \$94.6 million is comprised of the net of 1) bonds and notes issued of \$132.6 million, 2) less \$40.8 million of principal payments and 3) plus \$2.8 million of bond premium received net of amortization expense. Net revenues of the system secure debt issued by the Authority. Debt coverage for fiscal year 2008 was 1.49 times which is higher than the 1.33 times required by Ordinance. Debt issued for basic capital needs is scheduled for 12 year retirement while debt issued for San Juan Chama Drinking Water Project is scheduled for 20 year retirement.

The Authority borrowed \$77.005 million from the New Mexico Mortgage Authority in September 2007. Proceeds including premium and net of issuance costs were \$80.0 million. \$47 million was allocated to partially fund Basic program rehab projects in fiscal years 2008 and 2009. Another \$3 million was allocated to non-Basic program projects in those two years. \$3.7 million was directed for use in future years on the Southside Reuse project which will treat wastewater effluent for irrigation and industrial use in the southern portion of the Authority's service area. The remaining \$26.3 million was used for Drinking Water Treatment Plant construction.

The Authority sold \$55.63 million of revenue bonds in April 2008. Proceeds including discount and net of issuance costs were \$55.0 million. \$7.2 million went to the Southside Reuse project. Southside Reuse was funded in fiscal year 2008 in anticipation of project start up in fiscal year 2009. \$47.8 was used for Drinking Water Treatment Plant construction. More detailed information can be found in the Notes to the Accompanying Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

According to forecasts by the University of New Mexico Bureau of Business and Economic Research (BBER), Employment growth in the Albuquerque economy has begun to slow. Following very strong growth in non-agricultural employment of 3.1% in FY/06, growth slowed to 2.6% in FY/07 and is expected to grow at only 1.1% in FY/08. The slowdown is due in part to housing, and also layoffs at several major firms. Intel announced a cut of 1,000 jobs, Public Service Company of New Mexico (PNM) approximately 500 jobs (150 now and 350 next year). Eclipse Aviation, a local manufacturer of light jet aircraft, entered into a Chapter 7 liquidation proceeding in March 2009. The last 800 employees were furloughed at the end of February 2009. The demise of Eclipse Aviation is expected to add .2% to the Albuquerque metropolitan area unemployment rate including job losses at suppliers. Manufacturing, after several years of weakness, had robust growth of 3% in FY/06 and 2.9% in FY/07, but with layoffs it posts a negative 3.6% for FY/08. This is expected to turn in FY/09 and have modest growth throughout the remaining forecast years. The unemployment rate remains low from FY/07 throughout the forecast remaining in the 3.6% to 3.9%.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2008

The manufacturing sector accounted for about 6% of employment in the MSA in FY/07. The sector lost 5,500 jobs between FY/98 and FY/05, but had strong growth in FY/06 and FY/07 adding nearly 1,400 jobs. In the construction sector, employment growth continues to decline. The outlook for Albuquerque City housing is rather weak with double-digit declines in total housing unit authorizations for 2007 and 2008. The educational services, health care and social assistance sector will continue as a major contributor to growth with employment gains just over 3.0% in 2007 and 2008. Retail trade was flat and posted annual growth of 1.1% for this period. The forecast expects annual growth of about 1.3%. Government sector employment growth will remain moderate in the 1.5-2.0% range. Other sectors, including professional, scientific and technical services and business services had average annual growth of 2.7% from FY/03 to FY/07. Growth in FY/05 through FY/07 was strong at 3.3% each year. The growth is expected to dip to only 0.4% in FY/08 with an average annual growth of 2.2% for the forecast years FY/08 to FY/12. Leisure and hospitality forecast shows a slowing of growth in the sector from 4.4% in FY/07 to 2.7% in FY/08. The growth continues to slow and averages 1.3% for the remainder of the forecast.

The Authority's customer base has increased from 172,270 in fiscal year 2007 to 173,724 in fiscal year 2008. On average the customer base has been increasing at a rate of 2% per year. This increase in customers has been tempered by the decrease in consumption as a result of water conservation.

From calendar 2000 to 2008 water production has decreased 14% from 37.1 billion gallons per year to 31.9 billion gallons per year.

The basic capital program was \$47 million for fiscal year 2008. Cash transfers from the operating program provide funding for 50% of the capital costs with the other 50% funded from debt financing. Approximately \$9 million will be used to support water and sewer expansion in the Authority's North and South Valley service areas. The Authority secured debt financing in the amount of \$50 million to support the basic capital program for fiscal year 2008 and fiscal year 2009.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Albuquerque Bernalillo County Water Utility Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Room 5012, One Civic Plaza N.W., Albuquerque, New Mexico 87102.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

Current assets:

Cash, investments, and accrued interest	\$ 35,812,862
Cash with fiscal agents held for debt service	36,700,648
Accounts receivable, net of allowance for uncollectible accounts	17,942,087
Notes receivable, current portion	1,012,387
Due from other governments	<u>1,408,898</u>
Total current assets	<u>92,876,882</u>

Noncurrent assets:

Long-term accounts and notes receivable	<u>5,647,255</u>
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Restricted assets:

Cash, investments, and accrued interest	71,509,971
Investment with fiscal agents	6,645
Escrow deposits	<u>147,604</u>
Total restricted assets	<u>71,664,220</u>

Capital assets:

Land	23,232,063
Buildings and improvements	2,210,836
Improvements other than buildings	1,751,212,485
Machinery and equipment	54,016,504
Purchased water rights	<u>39,647,635</u>
	1,870,319,523
Less accumulated depreciation and amortization	<u>917,064,552</u>
Net capital assets	953,254,971
Construction work in progress	<u>306,751,483</u>
Total capital assets	<u>1,260,006,454</u>

Other:

Capitalized bond issuance costs	<u>4,016,387</u>
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Total noncurrent assets	<u>1,341,334,316</u>
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Total assets	<u>1,434,211,198</u>
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The accompanying notes are an integral part of these financial statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF NET ASSETS, continued
June 30, 2008

LIABILITIES

Current liabilities:

Accounts payable	2,601,319
Accrued employee compensation	3,742,077
Deposits	973,425
Accrued interest payable	423,199
Water rights contract	893,395
Payable from restricted assets:	
Construction contracts payable	13,049,049
Current portion:	
Bonds	28,130,000
Loan agreements	8,348,928
Accrued interest	<u>10,095,428</u>
Total current liabilities	<u>68,256,820</u>

Noncurrent liabilities:

Long-term payable:	
Bonds, net of current portion, discounts and premiums	389,983,916
Loan agreements, net of current portion	211,431,075
Water rights contract, net of current portion	<u>15,778,921</u>
Total long-term payable	<u>617,193,912</u>
Other:	
Accrued vacation and sick leave pay	<u>125,636</u>
Total noncurrent liabilities	<u>617,319,548</u>
Total liabilities	<u>685,576,368</u>

NET ASSETS

Invested in capital assets, net of related debt	698,063,092
Restricted for:	
Construction	10,552,328
Unrestricted	<u>40,019,410</u>
Total net assets	<u>\$ 748,634,830</u>

The accompanying notes are an integral part of these financial statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year ended June 30, 2008

Operating revenues:	
Charges for services	<u>\$ 152,232,345</u>
Operating expenses:	
Salaries and fringe benefits	33,434,911
Professional services	706,368
Utilities	9,218,289
Supplies	5,249,035
Travel	47,319
Fuels, repairs, and maintenance	10,440,809
Contractual services	6,333,703
Other operating expenses	14,110,809
Depreciation	60,905,959
Amortization	393,410
Bad debt expense	<u>338,609</u>
Total operating expenses	<u>141,179,221</u>
Operating income	<u>11,053,124</u>
Nonoperating revenues (expenses):	
Interest on investments	6,442,709
Interest expense	(21,781,730)
City water service expansion charges	11,074,841
Bond issue amortization	(405,768)
Other	<u>1,357,152</u>
Total nonoperating revenues	<u>(3,312,796)</u>
Income before capital contributions and transfer of assets	7,740,328
Capital contributions	<u>11,939,326</u>
Change in fund net assets	19,679,654
Net assets, July 1	<u>728,955,176</u>
Net assets, June 30	<u>\$ 748,634,830</u>

The accompanying notes are an integral part of these financial statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF CASH FLOWS
Year ended June 30, 2008

Cash flows from operating activities:	
Cash received from customers	\$ 149,059,407
Cash payments to employees for services	(32,998,862)
Cash payments to suppliers for goods and services	(46,004,109)
Miscellaneous cash received	<u>1,362,483</u>
Net cash provided by operating activities	<u>71,418,919</u>
Cash flows from capital and related financing activities:	
Proceeds from revenue bonds	55,630,000
Proceeds from loan agreements	80,321,939
Capitalized bond issuance costs	(821,578)
Principal paid on revenue bond maturities	(30,170,000)
Interest and other expenses paid on revenue bond maturities	(16,756,145)
Principal paid on notes payable	(9,753,701)
Interest paid on notes payable	(7,715,824)
Principal paid on water rights contract	(866,987)
Interest paid on water rights contract	(534,247)
Purchased water rights	(111,877)
Acquisition and construction of capital assets	(131,453,387)
Capital grants received	1,631,459
City water service expansion charges	<u>11,074,841</u>
Net cash used for capital and related financing activities	<u>(49,525,507)</u>
Cash flows from investing activities:	
Interest received on investments	<u>7,605,199</u>
Net increase in cash and cash equivalents	29,498,611
Cash and cash equivalents, July 1	<u>114,679,119</u>
Cash and cash equivalents, June 30	<u><u>\$ 144,177,730</u></u>

The accompanying notes are an integral part of these financial statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF CASH FLOWS, continued
Year ended June 30, 2008

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 11,053,124
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	60,905,959
Amortization	393,410
Bad debt expense	338,609
Miscellaneous cash received	1,362,483
Decrease (increase) in assets:	
Receivables	(3,259,268)
Increase (decrease) in liabilities:	
Accounts payable	188,553
Accrued employee compensation and benefits	<u>436,049</u>
Net cash provided by operating activities	<u>\$ 71,418,919</u>

Cash and cash equivalents at June 30 consist of:

Current assets:	
Non-restricted - Cash, investments, and accrued interest	\$ 35,812,862
Restricted - Cash with fiscal agents held for debt service	36,700,648
Non-Current Assets:	
Restricted assets:	
Cash, investments, and accrued interest	71,509,971
Investment with fiscal agents	6,645
Escrow deposits	<u>147,604</u>
Total cash and cash equivalents, June 30	<u>\$ 144,177,730</u>

Noncash transactions:

Capital contributions by developers	10,362,491
Unrealized gain on investments	247,233
Interest accretion on capital appreciation bonds	(776,230)

The accompanying notes are an integral part of these financial statements.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

I. Summary of Significant Accounting Policies

The financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico (City) have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The significant governmental accounting policies are described below.

A. Reporting entity

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Albuquerque Bernalillo County Water Utility Authority (Authority) and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Authority. All policy-making for the System resides with the Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City became effective July 1, 2007 and runs through June 30, 2012. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City.

The accompanying financial statements present only the financial position of the Authority at June 30, 2008, and the results of its operations for the year ended June 30, 2008. The Authority is a component unit of the City, and these financial statements are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the expense is included (See Notes III A., G., and H.).

The Authority for financial reporting purposes consists of funds, departments, and programs for which the Authority is financially accountable. Criteria indicating financial accountability include, but are not limited to, the following:

1. (a) appointment by the Authority of a majority of voting members of the governing body of an organization, and (b) ability of the Authority to impose its will on the daily operations of an organization such as the power to remove appointed members at will; to modify or approve budgets, rates or fees, or to make other substantive decisions; or
2. provision by the organization of specific financial benefits or burdens to the Authority; or
3. fiscal dependency by the organization on the Authority such as from the lack of authority to determine its budget or issue its own bonded debt without Authority approval.

Based on the foregoing criteria, the Authority does not have relationships with other organizations not included herein, of such nature and significance that exclusion would not render the Authority's financial statements incomplete or misleading.

The accounting policies of the Authority as reflected in the accompanying financial statements conform to generally accepted accounting principles for local governmental units. The more significant of these accounting policies are summarized below.

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B. Measurement focus, basis of accounting, and financial statement presentation

The Authority accounts for all activities to provide water and sewer services for the residents of the City of Albuquerque and outlying areas. These activities include, but are not limited to, administration, operation, maintenance, financing and related debt

service, billing and collection. This proprietary type fund provides services, which are intended to be financed primarily through user charges, or activities where periodic determination of net income is appropriate.

The Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues or expenses. These include investment earnings, interest expense, and transactions that result from nonexchange transactions or ancillary activities.

The Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of when the related cash flow occurs.

In accordance with the provisions of the Governmental Accounting Standards Board Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the Authority applies all applicable Financial Accounting Standards Board pronouncements, which were issued as of November 30, 1989, in accounting and reporting for its operations except for those that conflict with or contradict GASB pronouncements. The Authority does not observe those issued after November 30, 1989.

C. Assets, liabilities, and net assets or equity

1. Cash, investments, and accrued interest

In accordance with City policies, the Authority participates in the City's cash management program that is administered by the City's Treasury Division. A significant portion of cash and investments held by the City is pooled. The pooled cash investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are stated at fair market value. The balance reported as "Cash, Investments, and Accrued Interest" represents the equity of the Authority in the pooled cash, investments, and accrued interest. The Authority's share of the interest earnings on pooled investments is determined by allocating interest to each of the participating funds of the City and the Authority based on average daily balances.

The investment policy states that the City will not commit any funds invested in the pool to maturities longer than three years from the date of purchase, except investments held to meet legal reserve requirements on bonded indebtedness. The maturity date of these investments will not exceed the final maturity date of the bond issue to which they are pledged. Funds are invested based on a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specific maturities.

All investments are valued at quoted market prices. The investment in the State of New Mexico local government investment pool (LGIP) is valued at fair value based on quoted market prices as of the valuation date. The State Treasurer LGIP is not SEC registered. The State Treasurer is authorized to invest the short-term investment funds, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.1A and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. This pool is subject to the standards set forth in the State Treasurer's Local Government Investment Policy document incorporated in and made a part of the State Treasurer's Investment Policy document. The Independent Auditors' Report, together with the Financial Statements, the

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1. Cash, investments, and accrued interest, continued

are available from the State Investment Council, 2055 South Pacheco Street, Suite 100, Santa Fe, New Mexico 87505, upon written request.

The following categories of investments are specifically authorized by the policy:

1. Repurchase Agreements - secured by collateral, which is delivered to a third-party safekeeping institution, with a market value equal to or greater than the value of the agreement.
2. U.S. Treasury Obligations - bills, notes, and bonds.
3. Obligations of Federal Agencies or Instrumentalities - interest bearing or discount form.
4. Municipal Bonds - rated in any of the three highest major rating categories by one or more nationally recognized rating agencies.

The following categories of deposits are specifically authorized by the policy:

1. Checking Accounts - at insured financial institutions.
2. Certificates of Deposit - subject to restrictions set forth in the City's Fiscal Agent Ordinance (City policy requires a minimum of 50% security consisting of insurance and/or collateral).

2. Account receivables and unbilled amounts

Account receivables balances do not include an allowance for uncollectible accounts. Water and sewer services are billed on a cycle basis; therefore, amounts for service provided but unbilled as of June 30, 2008, have not been included in accounts receivable or revenue. Such unbilled amounts are not material to the financial position and results of operations of the Authority.

3. Restricted assets

At June 30, 2008, a portion of the Authority's net assets was restricted for revenue bond retirement and debt service and for acquisition and construction of capital assets.

4. Capital assets

State of New Mexico Administrative Code requires state and local governmental agencies to capitalize fixed assets costing in excess of \$5,000. Currently, the Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and estimated useful life in excess of one year. The Authority implemented the new \$5,000 capitalization threshold in fiscal year 2007 for items purchased during the fiscal year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

Construction costs of water and sewer lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

<i>Buildings and improvements</i>	<i>15 - 50 years</i>
<i>Improvements other than buildings</i>	<i>15 - 33 years</i>
<i>Machinery and equipment</i>	<i>3 - 13 years</i>

Purchased water rights are recorded at cost and are being amortized using the straight-line method over one hundred years. Interest expense is capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted. The amount of capitalized interest is determined using the interest cost of the borrowings less any interest earned on investments acquired with the proceeds of the related tax-exempt borrowings from the date of the borrowings until the assets are ready for their intended use.

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5. Other assets

Costs incurred in connection with the issuance of bonds are capitalized and are reported as deferred bond issuance costs. These costs are amortized over the remaining maturity period of the related bond issues under a method that approximates the level interest rate method.

6. Accrued vacation and sick leave pay

The employees of the Authority may accumulate limited amounts of vacation pay that is payable to the employee upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The amount reported in the current liability section is approximately equal to the amount of vacation leave paid in the current fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

The employees of the Authority may accumulate limited amounts of sick leave that is payable to the employee upon termination or retirement. Sick leave costs are recognized when vested or taken, whichever occurs first. The amount reported in the current liability section is the amount recognized for those employees who are currently eligible to retire as of the end of the fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net assets.

7. Accounts payable and construction contracts payable

Accounts payable are recorded as the liability is incurred and represent payables from daily operations. Payment is made from unrestricted assets. Construction contracts payable are liabilities incurred for the acquisition of new capital projects or for rehabilitation of existing water and sewer lines and facilities. These contracts are funded by operational revenues, UEC revenues, and long term obligations. Construction contracts are payable from restricted assets.

8. Long-term obligations

Long-term obligations used to finance capital acquisitions, payable from the Authority's revenues, are recorded in the Authority's Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

9. Statement of cash flows

For the purposes of the statement of cash flows, all pooled cash and investments (including restricted assets) are considered to be cash equivalents, although there are investments with a maturity in excess of three months when purchased, because they have characteristics of demand deposits for each individual fund. Non-pooled investments with original maturities of three months or more are deducted from cash, investments, and accrued interest. Purchases and sales of these investments are reported as cash flows from investing activities.

10. Estimated amounts reported in financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

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11. Net assets, restrictions, and designations

The net assets of the Authority are reported in the following three categories:

Investment in capital assets, net of related debt – This category reflects the portion of net assets that are associated with capital assets less outstanding capital asset related debt.

Restricted net assets – Restricted net assets result from constraints placed on the use of net assets when externally imposed by creditors, grantors, laws and regulations of other governments and imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Unrestricted net assets – This category reflects net assets of the Water Authority, not restricted for any project or other purpose.

12. New accounting pronouncements

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2008.

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

The Authority will implement the new GASB pronouncements in the fiscal year no later than the required effective date. The Authority believes that the above listed new GASB pronouncements will not have a significant financial impact to the Authority or in issuing its financial statements. In fiscal year 2008, the City and the Authority adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Issued in June 2004, this Statement addresses how state and local governments should account for and report their costs and obligations related to OPEB. The Statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

13. Reclassifications

Certain reclassifications of prior year information have been made to conform to the current period.

Purchased water rights previously reported in prior year as other noncurrent assets on the Statement of Net Assets, are now reported as a component of capital assets. Additionally in prior year, the purchases of these water rights were reported as cash flow from noncapital financing activities in the Statement of Cash Flows. They are now reported as cash flows from capital and related financing activities.

II. Stewardship, Compliance and Accountability

The budgetary data is prepared consistent with the basis of accounting described in Note I. B. The annual budget is formulated by the Authority's Management and submitted to the Water Authority Board by April 1 for the fiscal year commencing July 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the Water Authority Board. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2008, expenditures may not exceed appropriations at the fund level.

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III. Detailed Notes

A. Cash and investments

As discussed in Note I.C.1., the Authority participates in the City's pooled investment program. Cash and investments are held by the City and balances are allocated between the City and Authority. The total cash, investments, accrued interest and cash with fiscal agents, net of cash overdrafts of the City at June 30, 2008, consist of the following:

	(In thousands of dollars)				
	<u>Govern- mental Activities</u>	<u>Business- type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>	<u>Component Unit</u>
Cash, investments, accrued interest and cash with fiscal agents, net of unamortized discounts and premiums:					
Repurchase agreements	\$ 156,131	\$ 54,302	\$ 1,096	\$ 211,529	\$ 38,061
Obligations of federal agencies or instrumentalities	194,277	57,814	1,363	253,454	47,360
State of New Mexico investment council	31,341	-	-	31,341	-
State of New Mexico local government investment pool	177,604	60,748	1,247	239,599	43,296
Held in trust by NMFA in State of New Mexico local government investment pool	-	-	-	-	7
Held in trust by Wells Fargo Bank in U.S. Treasury Fund	114	2,502	-	2,616	-
Held in trust by Bank of Albuquerque in U.S. Treasury Fund	788	-	-	788	-
Total investments	<u>560,255</u>	<u>175,366</u>	<u>3,706</u>	<u>739,327</u>	<u>128,724</u>
Bank accounts at book balances	<u>(11,341)</u>	<u>17,670</u>	<u>1,159</u>	<u>7,488</u>	<u>14,822</u>
Accrued interest receivable	1,986	591	14	2,591	484
Imprest cash funds	86	16	-	102	-
Escrow deposits	-	467	-	467	148
Total other	<u>2,072</u>	<u>1,074</u>	<u>14</u>	<u>3,160</u>	<u>632</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 550,986</u>	<u>\$ 194,110</u>	<u>\$ 4,879</u>	<u>\$ 749,975</u>	<u>\$ 144,178</u>
Current cash, investments and accrued interest:					
Cash, investments and accrued interest	\$ 386,977	\$ 38,344	\$ 4,879	430,200	\$ 35,813
Cash and investments with fiscal agents	85,198	44,157	-	129,355	36,701
Cash held by others	-	1,750	-	1,750	-
Total current cash, investments and accrued interest	<u>472,175</u>	<u>84,251</u>	<u>4,879</u>	<u>561,305</u>	<u>72,514</u>
Restricted noncurrent cash, investments and accrued interest:					
Cash, investments and accrued interest	78,811	109,392	-	188,203	71,509
Cash and investments with fiscal agents	-	-	-	-	7
Escrow deposits	-	467	-	467	148
Total noncurrent cash, investments and accrued interest	<u>78,811</u>	<u>109,859</u>	<u>-</u>	<u>188,670</u>	<u>71,664</u>
Total cash, investments, accrued interest and cash with fiscal agents	<u>\$ 550,986</u>	<u>\$ 194,110</u>	<u>\$ 4,879</u>	<u>\$ 749,975</u>	<u>\$ 144,178</u>

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A. Cash and investments, continued

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's funds may not be returned to it. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2008, \$2,394,000 of the City's bank balances of \$10,282,000 was exposed to custodial credit risk. It is the Bank of America's policy to only collateralize collected balances, not available balances. The collateral is held in the City's name by Bank of New York, with whom the City has entered into a tri-party collateral agreement through Bank of America.

Custodial credit risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment basis. The investment policy further requires that all collateral securities held by a third party custodian, designated by the City Treasurer, shall be held in the City's name and evidenced by a safekeeping receipt or Federal Reserve book-entry reporting.

Credit risk. Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the City will not be able to recover the value of its principal. As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes or insured/collateralized certificates of deposit. The guidelines are reviewed considering the probability of market and default risk in various investments sectors as part of its allocation evaluation. The City's investment policy describes permitted investments in Section 7 and describes prohibited investments in Section 8. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement 2) certificates of deposit with local banks be fully insured and 3) brokered certificates of deposit be 100% collateralized. Investments in direct obligations of the U.S. Treasury are permitted as are securities of most U.S. Government agencies with the exception of Government National Mortgage Association securities. Other prohibited investments are 1) Collateralized Mortgage Obligations 2) inverse floaters and 3) reverse repurchase agreements. At June 30, 2008 all of the City's investments in its internal investment pool other than overnight repurchase agreements and a position in the State of New Mexico Local Government Investment Pool (LGIP) were invested with U.S. Government agencies whose debt was rated AAA by Standard & Poor's and AAA by Moody's Investors Service. The City's non-pooled investments in the State of New Mexico Investment Council Core Bond Fund and the State of New Mexico Local Government Investment Pool were not rated.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy states the City will develop diversification strategies to avoid incurring concentration risk. The following general policies and constraints shall apply: With the exception of collateralized repurchase agreements, U.S. Treasury securities, and authorized pools (comprising the "liquidity segment" of the portfolio), no more than 50% of the residual investment portfolio (the "core segment") will be invested in a single issue or at a single maturity. The core segment is invested in debt securities issued by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank and the Federal Farm Credit Bank. These investments comprise 25%, 8%, 42%, and 25% respectively, of the core segment. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. At June 30, 2008, core segment maturities are allocated as follows: 0-3 months – 67%; 3-12 months – 18%; 1-2 years – 6%; 3-5 years – 9%.

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A. Cash and investments, continued

At June 30, 2008 the City held investments issued by four Government Sponsored Entities (GSEs), as well as overnight repurchase agreements (repos) and a position in the New Mexico Treasurer's LGIP. Summarized information concerning the GSE investments is as follows:

U.S. Agency Investments (summarized by GSE)	Wtd. Avg. Days to Maturity	Weighted Average Days to Call	Standard & Poor's Rating	Moody's Rating
Federal Home Loan Banks	439	22	AAA	Aaa
Federal National Mortgage Association	126	-	AAA	Aaa
Federal Home Loan Mortgage Corporation	492	45	AAA	Aaa
Federal Farm Credit Bank	476	55	AAA	Aaa

Repo holdings (collateral) consisted of U.S. Agency securities permitted under Section 6-10-10 N.M.S.A. 1978, and by the City's investment policy.

At June 30, 2008, the City held an investment position in the State Treasurer's New MexiGROW LGIP. As a government investment pool, the LGIP is exempt from disclosing concentration risk. Summarized information regarding the pool's credit risk and interest rate risk is as follows:

Rating: AAAM WAM: 46 days

City Position:

Internal Investment Pool	\$ 275,000,000
Housing Authority	<u>7,895,241</u>
Total Position	<u>\$ 282,895,241</u>

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City's investment policy limits the City's exposure to interest rate risk by requiring that no less than 80% of the funds invested in the core segment of the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities of up to five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase. The weighted average maturity of the investments in the internal investment pool's core segment at June 30, 2008 was 436 days. The weighted average days to call of the core segment was 10 days.

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A. Cash and investments, continued

Pledged Collateral by Bank. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). The pledged collateral by bank (in thousands) at June 30, 2008 consists of the following:

	First Community (Housing)	First Community (Other)	Bank of America	Wells Fargo Bank	Compass Bank	NM Bank & Trust
Total amount on deposit	\$ 2,103	\$ 2,614	\$ 2,580	\$ 2,173	\$ 5	\$ 808
Less FDIC coverage	<u>100</u>	<u>100</u>	<u>100</u>	<u>200</u>	<u>5</u>	<u>100</u>
Total uninsured public funds	2,003	2,514	2,480	1,973	-	708
50% collateral requirement	<u>1,001</u>	<u>1,257</u>	<u>1,240</u>	<u>986</u>	<u>-</u>	<u>354</u>
Pledged securities, fair value	<u>2,101</u>	<u>2,465</u>	<u>86</u>	<u>2,184</u>	<u>-</u>	<u>406</u>
Pledged in excess of requirement	<u>\$ 1,100</u>	<u>\$ 1,208</u>	<u>\$ (1,154)</u>	<u>\$ 1,198</u>	<u>\$ -</u>	<u>\$ 52</u>

B. Accounts and notes receivable

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Due from Governments are primarily Federal and State grants receivable of \$1.4 million for capital improvements. Also included are miscellaneous receivables. At June 30, 2008 there was an allowance for uncollectible accounts of \$338,609 on miscellaneous receivables. See Note K for discussion of New Mexico Utilities Litigation.

Notes receivable are for utility expansion charges. With the exception of an allowance for uncollectible accounts for North Valley connections charges in the amount of \$96,531 all of the remaining receivable is deemed collectible. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest.

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June 30, 2008

C. Capital assets

Capital asset activity of the Authority for the year ended June 30, 2008, was as follows:

	<u>Balance July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30</u>
Assets not being depreciated:				
Land	\$ 23,232,063	\$ -	\$ -	\$ 23,232,063
Construction work in progress	<u>324,170,005</u>	<u>18,526,096</u>	<u>35,944,618</u>	<u>306,751,483</u>
Total assets, not being depreciated	<u>347,402,068</u>	<u>18,526,096</u>	<u>35,944,618</u>	<u>329,983,546</u>
Assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	1,606,074,591	145,137,894	-	1,751,212,485
Equipment	<u>51,310,341</u>	<u>2,778,264</u>	<u>72,101</u>	<u>54,016,504</u>
Total assets, being depreciated	<u>1,659,595,768</u>	<u>147,916,158</u>	<u>72,101</u>	<u>1,807,439,825</u>
Less accumulated depreciation:				
Buildings	1,519,026	42,760	-	1,561,786
Improvements other than buildings	820,194,025	56,235,283	-	876,429,308
Equipment	<u>24,190,658</u>	<u>4,642,605</u>	<u>66,770</u>	<u>28,766,493</u>
Total accumulated depreciation	<u>845,903,709</u>	<u>60,920,648</u>	<u>66,770</u>	<u>906,757,587</u>
Capital assets being depreciated, net	<u>813,692,059</u>	<u>86,995,510</u>	<u>5,331</u>	<u>900,682,238</u>
Assets being amortized:				
Purchased water rights	39,535,758	111,877	-	39,647,635
Less amortization	<u>9,913,555</u>	<u>393,410</u>	<u>-</u>	<u>10,306,965</u>
Capital assets being amortized, net	<u>29,622,203</u>	<u>(281,533)</u>	<u>-</u>	<u>29,340,670</u>
Total capital assets, net	<u>\$ 1,190,716,330</u>	<u>\$ 105,240,073</u>	<u>\$ 35,949,949</u>	<u>\$ 1,260,006,454</u>

Changes to capital assets of the Authority for the fiscal year ended June 30, 2008, include the following amounts of capitalized interest:

	<u>Total Interest</u>	<u>Interest Related to Tax-Exempt Borrowing</u>	<u>Net</u>
Interest expense	\$ 25,181,996	\$ 3,400,266	\$ 21,781,730
Interest income	7,605,199	<u>1,162,490</u>	6,442,709
Capitalized interest		<u>\$ 2,237,776</u>	

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D. Long-term obligations

The change in the long-term obligations of the Authority for the year ended June 30, 2008, are as follows:

	Outstanding				Payable in one year
	June 30, 2007	Increases	Decreases	June 30, 2008	
Parity Obligations:					
Revenue Bonds	\$ 382,465,000	\$ 55,630,000	\$ 30,170,000	\$ 407,925,000	\$ 28,130,000
Loan Agreements - NMFA	132,245,740	77,005,000	6,354,975	202,895,765	7,957,395
Subordinate Obligations:					
Loan Agreements - NMED	20,282,964		3,398,726	16,884,238	391,533
Water rights contract	17,539,303	-	866,987	16,672,316	893,395
Accrued vacation and sick leave pay	2,721,616	2,823,104	2,654,586	2,890,134	2,764,498
Less deferred amounts:					
Unamortized bond discounts	(776,229)	-	(776,229)	-	-
Unamortized bond premiums	8,947,945	3,235,454	1,518,219	10,665,180	-
Bond refunding costs	(765,643)	-	(289,379)	(476,264)	-
	562,660,696	138,693,558	43,897,885	657,456,369	40,136,821
Current portion of long-term obligations	(37,161,870)	-	2,974,951	(40,136,821)	-
Total	\$ 525,498,826	\$ 138,693,558	\$ 46,872,836	\$ 617,319,548	\$ 40,136,821

Authority Revenue Bonds are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system. In ordinances pursuant to the issuance of these bonds, the Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding system obligations. The Authority met those requirements at the end of the fiscal year.

Authority Revenue Bonds outstanding at June 30, 2008, are as follows:

Issue	Amount	Interest Rate	Final Maturity	Call Provisions
June 1, 1990 A	\$ 11,365,000	6.00% to 7.20%	July 1, 2008	100% beginning July 1, 2000
June 15, 1997	9,155,000	4.75%	July 1, 2009	100% beginning July 1, 2006
January 1, 1999A	44,195,000	3.80% to 5.25%	July 1, 2011	Not callable
December 1, 2001	21,205,000	3.00% to 4.50%	July 1, 2013	100% beginning July 1, 2010
October 25, 2005	132,985,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	133,390,000	4.25% to 5.165%	July 1, 2026	100% beginning July 1, 2016
April 9, 2008	55,630,000	5.00%	July 1, 2033	100% beginning July 1, 2018
Total outstanding	407,925,000			
Unamortized:				
Premiums	10,665,180			
Deferred refunding costs	(476,264)			
Net outstanding	\$ 418,113,916			

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D. Long-term obligations, continued

Included in the outstanding Authority Water and Sewer Revenue Bonds are the June 1, 1990A issue, capital appreciation bonds with a par amount of \$32,580,000, net of original issue discount of \$22,588,290. In accordance with the bond agreement, the payment for these bonds is not provided for in the current revenue rate structure; however, interest in the amount of \$22,588,290 has accreted over the life of the bond as of June 30, 2008 of which \$776,230 was for the current year, and; accordingly, the interest expense and related liability are included in the financial statements of the Authority. The accreted interest is included as a reduction of the unrestricted net assets.

On April 9, 2008, the Authority issued \$55,630,000 of Joint Water and Sewer System Improvement Revenue Bonds, Series 2008A. The bonds have an interest rate of 5%, and require annual interest payments until July 1, 2026, at which time annual principal payments will also come due. Final maturity is July 1, 2033. The proceeds of these bonds will be used for improvements to reuse projects for the System to treat effluent water for subsequent use and to continue work on the San Juan Chama diversion project. The balance due at June 30, 2008 was \$55,630,000.

Loan Agreements – Parity Obligations

On May 10, 2002, the Authority executed a loan agreement with the New Mexico Finance Authority for \$2,450,000 with an average interest rate of 2.8%. The proceeds from the loan were used for the construction of a drinking water disinfection system in the Authority's water and wastewater utility system. In January, 2007, the Authority had drawn \$1,578,306 against this loan. It was determined that the remaining balance of \$847,194 was not to be used for the aforementioned project. The New Mexico Finance Authority resized the loan to \$1,594,092 (total draws on the loan plus \$15,783 for cost of issuance). The new loan has an interest rate of 2.75%. Final payment is due on July 1, 2012. The balance due at June 30, 2008 was \$736,835.

On April 11, 2003, the Authority executed a loan agreement with the New Mexico Finance Authority for \$3,600,000 with an interest rate of 2.0%. The proceeds from the loan will be used for the construction of a pump station in the Authority's water and wastewater utility system. Final payment is due on January 1, 2016. The balance due at June 30, 2008 was \$2,493,930.

On October 13, 2004, the Authority executed a loan agreement with the New Mexico Finance Authority for \$118,415,000 with an average interest rate of 3.3%. The proceeds of the loan will be used to fund the San Juan Chama surface water diversion project and various capital improvements to the water and wastewater system. Final payment is due May 1, 2024. The balance due at June 30, 2008 was \$105,160,000.

On October 28, 2005, the Authority executed a loan agreement with the New Mexico Finance Authority for \$20,000,000 with an average interest rate of 4.8%. The proceeds of the loan will be used to fund the San Juan Chama surface water diversion project. Final payment is due May 1, 2025. The balance due at June 30, 2008 was \$20,000,000.

On September 26, 2007, the Authority executed a loan agreement with the New Mexico Finance Authority for \$77,005,000 with an average interest rate of 4.58%. The proceeds of the loan will be used for the San Juan Chama Drinking Water Project, capital improvements to the water system including expansion, maintenance, and upgrading of existing pumps, distribution lines and wells, and further development of the valley utilities system. Final payment is due May 1, 2025. The balance due at June 30, 2008 was \$74,505,000.

Loan Agreements – Subordinate Obligations

On October 1, 1994, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$7,907,582 to a long-term notes payable with an interest rate of 5%. On March 12, 2001, the Authority refinanced the note payable, which lowered the interest rate to 3%. Annual payments are \$567,926, with a final payment due on July 1, 2013. The balance due at June 30, 2008, was \$2,600,935.

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D. Long-term obligations, continued

On June 14, 2000, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing line of credit agreement of \$15,000,000 to a long-term note payable with an interest rate of 4% with annual payments of \$1,587,627. Final payment is due on July 1, 2012. The balance due at June 30, 2008, was \$5,762,922.

On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing \$12,000,000 line of credit agreement. The note payable of \$9,627,877 (total draws on the line of credit plus accrued interest of \$242,655) has an interest rate of 3%. The note requires annual payments of \$647,145, due on May 20th each year. Final payment is due May 20, 2025. The balance due at June 30, 2008, is \$8,520,381.

Water Rights Contract

A Water Rights Contract with the United States Government was entered into by the Authority during the fiscal year ended June 30, 1963, to pay a portion of the construction, operation, and maintenance costs of the San Juan Chama diversion project in return for a portion of the water rights resulting from the project. The contract provides for payment in fifty annual installments with final maturity in 2022, and has an interest rate of 3.046%. The amount of the contract outstanding at June 30, 2008, was \$16,672,316.

The annual debt service requirements on the revenue bonds, loan agreements and the water rights contract payable outstanding at June 30, 2008, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 37,372,323	\$ 26,997,523	\$ 64,369,846
2010	40,403,533	26,765,296	67,168,829
2011	37,073,145	25,005,374	62,078,519
2012	39,356,845	23,401,050	62,757,895
2013	34,176,693	21,875,805	56,052,498
2014 - 2018	164,114,068	87,492,074	251,606,142
2019 - 2023	149,672,420	52,189,707	201,862,127
2024 - 2028	98,518,292	20,359,545	118,877,837
2029 - 2033	35,495,000	6,659,375	42,154,375
2034	8,195,000	204,875	8,399,875
	<u>\$ 644,377,319</u>	<u>\$ 290,950,624</u>	<u>\$ 935,327,943</u>

E. Defined benefit pension plan – Public Employees Retirement Association

Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement and disability benefits, survivor benefits and cost of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

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E. Defined benefit pension plan – Public Employees Retirement Association, continued

Retirement Eligibility - An employee may retire when 25 or more years of service are attained at any age or under the following age options: age 60 with 20 or more years of service, age 61 with 17 or more years of service, age 62 with 14 or more years of service, age 63 with 11 or more years of service, age 64 with 8 or more years of service, or age 65 with 5 or more years of service.

Retirement Benefits - An employee's retirement benefit is based on a formula that considers credit for years of service multiplied by a percentage factor and is then applied against the employee's average highest three-year salary. Retirement benefits are vested upon reaching five years of service. The plan also provides death and disability benefits. Benefits are established by State statute.

Funding Policy – The contribution requirements of plan members and the Authority are established under Chapter 10, Article 11 NMSA 1978. Covered employees are required by State statute to contribute a percentage of their gross salary; the Authority is also required by State statute to contribute a certain percent depending on the type of plan. The following is the plan covered by the Authority, contribution requirements, and contributions actually made (in thousands of dollars) for the year ended June 30, 2008.

<u>Group Covered</u>	<u>Employee</u>		<u>Employer</u>	
	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>
General - Management, Blue Collar and White Collar	13.15%	\$ 2,666	9.15%	\$ 1,881

In accordance with Chapter 10, Article 11, Section 5 NMSA 1978, the Authority has elected to make a percentage of the employee's contributions. The percentage of the employee's contribution paid by the Authority varies according to the specific plan type. In fiscal years 2007 and 2006 Authority contributions were included in the City's contribution data and therefore cannot be determined. For the fiscal year ended June 30, 2008, the Authority paid \$1,880,834 in employer contributions to PERA.

If a member's employment is terminated before the member is eligible for any other benefits under PERA, the member may receive a refund of the member's contribution and interest accrued based on rates established biannually by the retirement board. The payroll for Authority employees covered by PERA for the year ended June 30, 2008, was \$20,387,767; the total payroll for all employees of the Authority was \$23,608,482.

F. Defined contribution retirement plan

On March 31, 2004, the Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for full time employees and 7% for part time employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute one of 3.29%, 5%, 7%, 10% for full time employees and 7% for part time employees. Total contributions to the plan were \$58,029 in fiscal year 2008 of which \$41,771 were from employer contributions and \$16,258 was from employee contributions.

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G. Post employment benefits

In addition to providing pension benefits described in Notes E. and F, the City and the Authority provide certain health care and life insurance benefits for retired employees. Substantially all of the City's employees may become eligible for those benefits if they reach the normal retirement eligibility conditions while working for the City.

Postemployment Life Insurance Benefits

Plan Description. The City's Life Insurance Benefit Plan (Plan) is a single employer defined benefit plan administered by the City; the plan also includes coverage for the employees of the Albuquerque Bernalillo County Water Authority (a separate legal entity, although a component unit of the City). Insurance benefits are authorized by the City's Merit System Ordinance and Personnel Rules and Regulations. Upon retirement an employee will continue to be covered by the City's plan at no cost to the employee. Coverage will be one-half of the coverage reflected on the most recent annual life insurance adjustment report immediately prior to retirement up to a maximum of \$25,000. Effective July 1, 2008 the minimum amount of coverage per retiree will be \$12,500. The number of retired employees covered under the life insurance benefit was 3,614 at June 30, 2008, and the amount of life insurance coverage for these retired employees was \$73,777,900.

Funding Policy. The City recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenditures. Life insurance benefits are paid through premiums to an insurance company under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The required contribution is based on projected pay-as-you-go financing requirements. The current rate is .28 per \$1,000 face value of life insurance for actives and retirees. The life insurance premium costs for the City's retirees for the years ending June 30, 2008, 2007, and 2006 were \$242,940, \$215,577, and \$204,272 respectively. The life insurance and accidental death and dismemberment premium costs for the City's active employees for the years ending June 30, 2008, 2007, and 2006, were \$1,074,508, \$1,186,427 and \$1,073,051, respectively.

Annual OPEB Cost and Net OPEB Obligation. The City's annual postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation to the Life Insurance Benefit plan.

Annual required contribution:	
Normal cost	\$ 95,845
Amortization of unfunded actuarial accrued liability	50,747
Interest on net OPEB obligation	-
	<hr/>
Annual OPEB cost	146,592
Contributions made by Authority	(52,215)
Contributions made by City of Albuquerque from preexisting balance	(94,377)
	<hr/>
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of year	-
	<hr/>
Net OPEB obligation - end of year	<u>\$ -</u>

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G. Post employment benefits, continued

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/06	N/A	N/A	N/A
6/30/07	N/A	N/A	N/A
6/30/08	\$ 146,592	100%	\$ 0

Funding Status and Funding Progress. As of June 30, 2008, the most recent actuarial valuation date, the plan was 0% percent funded using the criteria established by GASBS 45. The actuarial accrued liability (AAL) for benefits was \$4,479,055 (\$1,328,431 for active employees and \$3,150,624 for retired employees). A significant portion of the AAL for retirees was incurred when the Authority was a City Department, therefore, this portion of the AAL is applicable to the City. There are no plan assets; however, the City has earmarked \$7,397,129 in the City's Internal Service Employee Insurance Fund for future plan costs. The Authority's covered payroll (annual payroll of active employees covered by the plan) was \$33,434,911 and the ratio of the UAAL to the covered payroll was 3.97%. The ARC as a percent of payroll for the City as a whole is 1.2% of which .4% is the normal cost as a percent of payroll. The ARC per active employee is \$478. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events of events far into the future. Examples include assumptions about future employment, mortality, and changes in life expectancies. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information for fiscal year 2008 only; however, in future years, the schedule will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the Life Insurance Benefit plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the City's historical pattern of paying for the plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2008, actuarial valuation, the Entry Age Normal (EAN) funding method was used where, for each plan member, the actuarial present value of benefits is levelly spread over the plan member's earnings or service from entry age to assumed exit age. The EAN cost method is generally regarded by actuaries as the most stable of the funding methods. The goal of GASBS 45 is to match recognition of retiree life expense with the periods during which the benefit is earned and the City's actuary believe that EAN funding method effectively meets that goal in most circumstances. Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs. The City pays the same insurance premium rates for both active and retired employees, because the retired employees are on average older than active employees, there is an implicit subsidy of retiree coverage by active employee costs, which GASBS 45 generally requires be attributed to the retiree liability. The actuarial assumptions included a 4.0 percent investment rate of return on expected long-term returns on the City's own investments calculated on the funded level of the plan at the valuation date. As of June 30, 2008, the plan has not been funded and no interest was earned on the plan assets during the year. The City intends to amortize the UAAL over a thirty-year period under the level percentage of pay method, beginning in the next fiscal year. The remaining amortization period at June 30, 2008, was 29 years. The ARC was based on a 4.0 percent discount rate, funding will be based on an 8.0 percent discount rate.

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G. Post employment benefits, continued

State Retiree Health Care Plan

Plan Description. The Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which the event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority, 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, New Mexico 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy a=rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after 1/1/98 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

The Authority's contributions to the RHCA for the years ended June 30, 2008, 2007, and 2006 were \$417,796, \$378,617 and \$356,617, respectively, which equal the required contributions for each year.

H. Risk management

The City and the Authority are exposed to various risks of loss related to torts and civil rights claims (including law enforcement and employment related exposures); theft, damage and destruction of its real and personal assets; workers compensation losses; errors and omissions of City officers and officials; and natural disasters. The City uses the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$1,000,000 for each workers' compensation incident, \$1,050,000 for each tort liability claim, and \$50,000 for each City real and contents damage claim. Losses in other categories and catastrophic losses in the mentioned

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H. Risk management, continued

categories are the subject of insurance and/or actuarially reviewed retentions. Whenever a risk exposure is insured, the City continues to benefit from case coverage on claims that were incurred during the insured claim year.

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was \$1,000,000 at June 30, 2008, and is included in the unrestricted net assets (deficit) of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic factors. The estimate of the claims liability also includes amounts for incremental claim adjustments expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

Based on historical data, the City believes the Risk Management Fund is adequately funded. During Fiscal Year 2007, a comprehensive actuarial review was done to gauge the adequacy of the reserves for both the Workers' Compensation and Tort Liability programs. The actuarial review validated that the current reserves are adequate for reserves in anticipation of adverse developments in reported cases and for claims which may have occurred but have not yet been reported. The cash balance grew by \$9,448,436 during Fiscal Year 2008. Moreover, pursuant to Section 41-4-25(B) NMSA 1978, in the event of a judgment against the City in excess of \$1,000,000 the City, with Council approval, may levy a tax on real property to provide for the payment of catastrophic losses. In addition, the City started Fiscal Year 2008 with \$34,336,763 available in the General Fund balance. Finally, the City has reserve amounts created by the City's policy to reserve one-twelfth of the General Fund budgeted amount.

The amounts and change in the Fund's claims liability in fiscal year 2008 and 2007 were:

	2008	2007
Claims liability at July 1	\$ 57,006,436	\$ 50,950,991
Current year claims and change in estimates	24,687,241	29,078,498
Claims liquidated	(21,596,973)	(23,023,053)
Claims liability at June 30	\$ 60,096,704	\$ 57,006,436
The components of the claims liability at June 30 are:		
Current portion	\$ 26,579,300	\$ 21,322,550
Noncurrent portion	33,517,404	35,683,886
Total claims liability	\$ 60,096,704	\$ 57,006,436

The Authority paid \$4,603,513 for its share of the risk management charges for the year.

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I. Transactions with other government agencies

As discussed in Note I-A, the Authority has entered into a Memorandum of Understanding with the City for operations of the utility. In addition to the risk management charges reported in Note III-H, the Authority engaged in the following transactions with the City. The Authority paid the City for the following services:

Franchise fees	\$ 4,998,709
Administrative indirect overhead, including accounting and other central services	1,594,000
Warehouse supplies	3,003,757
Fleet management services	2,337,960
Telephone	291,769
Office services and parking	<u>101,913</u>
Total	<u>\$ 12,328,108</u>

The City paid the Authority for water and sewer services in the amount of: \$ 7,427,893

J. Commitments and contingencies

Construction Commitments. At June 30, 2008, the uncompleted construction and other commitments in the Authority was \$59,749,044. This amount will be paid from assets restricted for construction, improvements and replacements, or from operating revenues.

Federal and State Grant Commitments. The Authority has received a number of Federal and State grants for specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, Authority management believes that such disallowances, if any, will not be material. Single audit information for the Authority is included in the Comprehensive Annual Financial Report for the City of Albuquerque.

Contingencies. In the normal course of business, the Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued. It is the opinion of Authority management that the ultimate resolution of other litigation will not have a material effect on the financial position of the Authority.

The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. A group of environmentalists and farmers filed an appeal of the surface diversion permit in State District Court. The State District Court ruled in favor of the Authority on all counts. The decision of the State District Court granting the surface diversion permit was appealed by the same protestants to the New Mexico Court of Appeals. The case before the Court of Appeals has been fully briefed and argued, and a decision could be issued at any time. In a related environmental permitting process, the Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004 and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat. Hence, although there is some continued environmental dispute, the current operation of the San Juan Chama Drinking Water Project is fully permitted by the State Engineer and involved federal agencies.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

K. Subsequent events

San Juan–Chama Drinking Water Project

The San Juan Chama Drinking Water Project began in August 2004 following the completion of the diversion and environmental permitting. The San Juan-Chama Drinking Water Project came on-line on December 5, 2008 and the surface water treatment plant was recently completed in January 2009. The Drinking Water Project consists of a diversion dam on the Rio Grande, eighteen pipeline segments, approximately 55 miles of pipeline, a raw water pump station, a raw water intake and fish passage structure designed to protect habitat on the Rio Grande and the endangered silvery minnow, and a surface water treatment plant. Construction costs for the project were approximately \$385 million with an additional \$70 million for design, construction inspection and land purchases.

New Mexico Utilities

New Mexico Utilities ("NMU"), a for-profit water and sewer carrier, serves approximately 17,000 residents located in northwest Albuquerque. On July 1, 2004, the Authority increased the sewer rates charged to NMU based on a rate study that concluded that (1) NMU was not paying its cost of service for sewer services, and (2) City and County residents were subsidizing the sewer rates paid by NMU. The Authority believed the rate disparity put an unfair burden on some residents in the City and County which could be alleviated through the rate increase. The Authority also withdrew its permission to allow NMU to use certain Authority return flow credits which were earned through the release of treated wastewater into the Rio Grande River. NMU responded with a lawsuit against the Authority seeking restoration of the previous sewer rates and restoration of return flow credits which the Authority had suspended, which lawsuit remains pending in New Mexico State District Court. During the pendency of its lawsuit with the Authority, NMU refused to pay the higher rate and currently owes an outstanding balance of approximately \$4,800,000 in delinquent fees to the Authority, in addition to approximately \$1,000,000 of other outstanding amounts.

On January 19, 2007, the Authority filed a lawsuit in State District Court to acquire NMU. NMU answered the lawsuit, filed several dispositive motions and countersued the Authority. NMU's counterclaim against the Authority alleges the Authority violated its due process rights in its efforts to acquire NMU. On July 18, 2007, the Court issued its Decision and Order denying all NMU motions and finding that the Authority was lawfully created with the legal authority to acquire NMU. NMU filed a motion subsequent to the Decision and Order requesting the Court to forward the matter directly to an appellate court. The Court granted the motion, however, the New Mexico Court of Appeals declined to hear NMU's application. In November 2008, both district courts (i.e. the Court in which the sewer rate and return flow issues are set to be heard and the eminent domain Court) ordered NMU and ABCWUA to participate in a mediation with the intent that such mediation would address the merits of both legal actions. Mediated efforts began on January 9, 2009 and resulted in a Settlement, Arbitration Award, and Acquisition Agreement between the Authority and NMU with an effective date of February 2, 2009 (the "Settlement Agreement"). Under the terms of the Settlement Agreement, the Authority is to acquire the NMU water and wastewater system at a price of \$60,000,000 and NMU is to pay the Authority \$7,000,000 to satisfy the past due sewer treatment charges, penalties and interest. The Settlement Agreement contemplates that the closing will occur by June 2, 2009 and that stipulated judgments will be entered to end the pending litigation in both Courts.

The Authority plans to connect the NMU System to the San Juan-Chama Drinking Water Project by 2012 to replace the ground water currently provided by NMU. In addition, water rates for the NMU will be increased by approximately 3% in July 2010. The NMU rate revenues will be segregated to pay debt service associated with acquisition cost. The NMU system is expected to be fully operationally integrated into the Authority System in 2012.

Line of Credit Agreement

On October 15, 2008, the Authority entered into a line of credit agreement with the New Mexico Environment Department. The agreement allows the Authority to draw a total of \$12,000,000 at an interest rate of 2%. The purpose of the agreement is for the design and construction of the Santa Barbara Pump Station and Reservoir.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR LIFE INSURANCE BENEFIT PLAN
Year ended June 30, 2008

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability Entry Age Normal</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL Percentage of Covered Payroll</u>
6/30/2006	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2007	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2008	0	1,328,431	1,328,431	0.00%	33,434,911	3.97%

Note: This schedule represents the funding progress for the Albuquerque Bernalillo County Water Utility Authority portion of the City of Albuquerque's total unfunded actuarial accrued liability of \$51, 179,469.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL
Year ended June 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Charges for services	\$ 116,927,000	\$ 116,927,000	\$ 126,602,099	\$ 9,675,099
City water service expansion charges	17,000,000	17,000,000	11,074,841	(5,925,159)
Sustainable water supply	25,830,000	25,830,000	25,630,246	(199,754)
Interest on investments	1,700,000	1,700,000	5,332,113	3,632,113
Valley system connection charges	50,000	50,000	48,522	(1,478)
City system connection charges	60,000	60,000	1,111	(58,889)
Other miscellaneous	1,892,000	1,892,000	1,315,082	(576,918)
Transfer from non-restricted cash to cash restricted for debt service	<u>59,079,000</u>	<u>59,079,000</u>	<u>59,405,451</u>	<u>326,451</u>
Total revenues	<u>222,538,000</u>	<u>222,538,000</u>	<u>229,409,465</u>	<u>6,871,465</u>
Expenses:				
Water plant facility production	10,907,000	10,991,388	11,527,798	(536,410)
Water plant facility distribution	10,831,000	10,923,422	11,125,504	(202,082)
Water distribution facilitation	3,591,000	3,591,000	3,457,521	133,479
Wastewater treatment	10,703,000	10,784,594	10,564,025	220,569
Compliance	4,871,000	4,871,000	4,568,120	302,880
Wastewater collection	6,810,000	6,810,000	7,047,281	(237,281)
Sustainable water supply	1,615,000	1,844,433	1,542,389	302,044
North I-25 reuse	407,000	407,000	432,314	(25,314)
Customer services	4,151,000	4,151,000	4,126,981	24,019
Finance	5,445,000	5,445,000	5,456,792	(11,792)
Human resources	877,000	879,970	824,867	55,103
San Juan-Chama	2,225,000	2,225,000	2,228,412	(3,412)
Water resources, engineering and planning	6,074,000	7,149,000	6,101,698	1,047,302
Information systems	2,806,000	2,826,853	2,975,445	(148,592)
Low income utility credit	250,000	250,000	226,839	23,161
Water Authority	1,840,000	1,840,000	2,263,014	(423,014)
Debt service	65,466,000	65,466,000	62,981,002	2,484,998
Transfer to cash restricted for debt service	38,000,000	38,000,000	38,000,000	-
Transfer from cash restricted for debt service to cash restricted for capital acquisition	19,000,000	19,000,000	19,000,000	-
Transfer to cash restricted for capital acquisition	7,000,000	8,404,000	8,404,000	-
Sustainable water supply - transfer to cash restricted for debt service	21,079,000	21,079,000	21,079,000	-
Sustainable water supply - transfer to cash restricted for capital acquisition	-	-	-	-
Administrative services	<u>7,386,000</u>	<u>7,386,000</u>	<u>7,614,756</u>	<u>(228,756)</u>
Total expenses	<u>231,334,000</u>	<u>234,324,660</u>	<u>231,547,758</u>	<u>2,776,902</u>
Excess of revenues over (under) expenses	<u>\$ (8,796,000)</u>	<u>\$ (11,786,660)</u>	<u>(2,138,293)</u>	<u>\$ 9,648,367</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - BUDGET TO ACTUAL, continued
Year ended June 30, 2008

	Actual
Revenues (expenses) not budgeted:	
Interest on investments of restricted assets	2,025,853
Gain (loss) on disposition of property and equipment	(2,450)
Depreciation	(60,905,959)
Amortization of deferred bond costs	(405,768)
Amortization on water rights contract	(393,410)
Amortization on premium and discounts	1,518,219
Amortization of deferred amounts on refundings	(289,379)
Accreted interest on capital appreciation bonds	(776,230)
Unrealized gain on investments	247,233
Miscellaneous expenses	(616,871)
Bad debt expense	(338,609)
Lease of water rights	607,965
Net expenses over revenues not budgeted	(59,329,406)
Changes to conform to generally accepted accounting principles:	
Principal payments on bonds and loan agreements	38,725,621
Transfer to cash restricted for capital acquisition	27,077,548
Capital contributions	11,939,326
Capital outlay	1,216,715
Capitalized interest on long-term debt	2,237,776
Capital contributions budgeted as revenues	(49,633)
Net changes to conform to generally accepted accounting principles	81,147,353
Change in net assets	\$ 19,679,654

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STATISTICAL SECTION – UNAUDITED

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
LAST TEN FISCAL YEARS ⁽¹⁾
(In thousands of dollars)

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Operating revenues:			
Charges for services	\$ <u>99,031</u>	\$ <u>103,606</u>	\$ <u>107,771</u>
Operating expenses:			
Salaries and fringe benefits	23,227	23,946	25,062
Professional services	1,389	987	1,065
Utilities	7,973	7,419	8,244
Supplies	1,056	1,541	1,957
Travel	21	35	25
Fuels, repairs, and maintenance	6,949	7,287	7,875
Contractual services	2,963	2,866	3,313
Other operating expenses	9,060	9,327	10,152
Depreciation	42,205	41,670	37,070
Amortization - water rights	303	303	332
Bad debt expense	-	-	-
Total operating expenses	<u>95,146</u>	<u>95,381</u>	<u>95,095</u>
Operating income (loss)	<u>3,885</u>	<u>8,225</u>	<u>12,676</u>
Nonoperating revenues (expenses):			
Interest on investments	1,447	3,863	2,502
Gain (loss) on disposition of capital assets	3	(194)	102
Interest expense	(16,834)	(13,026)	(14,046)
City water service expansion charges	11,968	10,780	10,909
Bond issue costs incurred ⁽²⁾	(1,177)	-	-
Bond issue amortization ⁽²⁾	-	(13)	(93)
Equipment purchased for outside agency or fund	-	-	-
Expenses incurred for outside agency or fund	-	-	-
Other	321	457	3,649
Total nonoperating revenues (expenses)	<u>(4,272)</u>	<u>1,867</u>	<u>3,023</u>
Income (loss) before capital contributions and transfers	(387)	10,092	15,699
Capital contributions	<u>15,197</u>	<u>15,062</u>	<u>12,182</u>
Change in net assets	14,810	25,154	27,881
Net assets, July 1	<u>384,650</u>	<u>399,460</u>	<u>424,614</u>
Net assets, June 30	<u>\$ 399,460</u>	<u>\$ 424,614</u>	<u>\$ 452,495</u>

(1) 1996 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund. Some reclassification of prior year numbers have been made to conform to the Authority's presentation beginning with FY 2004.

(2) In 2000, the City adopted the policy of capitalizing bond issue costs and amortizing the costs over the life of the bond issue.

2002	2003	2004	2005	2006	2007	2008
<u>\$ 113,781</u>	<u>\$ 117,681</u>	<u>\$ 130,420</u>	<u>\$ 126,622</u>	<u>\$ 138,202</u>	<u>\$ 141,034</u>	<u>\$ 152,232</u>
25,433	24,760	25,479	26,796	27,200	30,151	33,435
754	236	388	1,139	522	572	706
7,581	7,924	8,306	7,935	8,575	7,844	9,218
1,307	1,529	2,425	2,939	3,567	4,493	5,249
13	5	26	24	19	36	47
7,169	7,524	7,387	7,252	7,322	9,494	10,441
3,145	2,637	3,886	4,422	2,907	3,937	6,334
10,743	10,786	12,498	12,909	14,058	14,058	14,111
39,355	40,843	42,877	46,410	51,934	55,926	60,906
348	359	370	374	383	392	393
-	-	-	-	-	-	339
<u>95,848</u>	<u>96,603</u>	<u>103,642</u>	<u>110,200</u>	<u>116,487</u>	<u>126,903</u>	<u>141,179</u>
<u>17,933</u>	<u>21,078</u>	<u>26,778</u>	<u>16,422</u>	<u>21,715</u>	<u>14,131</u>	<u>11,053</u>
2,032	1,073	419	1,549	5,019	8,936	6,443
66	19	10	(356)	7	(51)	(2)
(12,206)	(12,278)	(10,428)	(8,406)	(8,619)	(15,889)	(21,782)
11,909	14,433	15,112	12,404	17,255	12,516	11,075
-	-	-	-	-	-	-
(35)	(97)	(130)	(143)	(313)	(305)	(405)
-	(332)	(242)	-	-	-	-
-	-	(296)	(161)	(278)	(118)	-
<u>544</u>	<u>4,938</u>	<u>203</u>	<u>1,390</u>	<u>570</u>	<u>70</u>	<u>1,359</u>
<u>2,310</u>	<u>7,756</u>	<u>4,648</u>	<u>6,277</u>	<u>13,641</u>	<u>5,159</u>	<u>(3,312)</u>
20,243	28,834	31,426	22,699	35,356	19,290	7,741
<u>14,995</u>	<u>22,178</u>	<u>28,288</u>	<u>20,849</u>	<u>16,854</u>	<u>15,448</u>	<u>11,939</u>
35,238	51,012	59,714	43,548	52,210	34,738	19,680
<u>452,495</u>	<u>487,733</u>	<u>538,745</u>	<u>598,459</u>	<u>642,007</u>	<u>694,217</u>	<u>728,955</u>
<u>\$ 487,733</u>	<u>\$ 538,745</u>	<u>\$ 598,459</u>	<u>\$ 642,007</u>	<u>\$ 694,217</u>	<u>\$ 728,955</u>	<u>\$ 748,635</u>

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SELECTED WATER/SEWER SYSTEM STATISTICS
LAST TEN CALENDAR YEARS

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Estimated Population (Service Area)	485,569	491,723	497,916	482,577
Number of Meters (Billed)	144,502	147,605	149,883	153,245
Estimated Persons Per Meter	3.36	3.33	3.32	3.15
Annual Pumpage (1,000 Gallons)	36,841,000	35,627,000	37,101,000	35,750,000
Annual Water Billed (1,000 Gallons)	32,288,181	31,384,676	33,074,427	31,670,527
Average Daily Pumpage (Gallons)	100,934,247	97,608,219	101,646,575	97,945,205
Peak Day Pumpage (Gallons)	181,560,000	174,430,000	169,500,000	163,600,000
Average Daily Production Per Meter (Gallons)	698	661	678	639
Well Pumping Capacity (per 24 Hour Period)	293,000,000	293,000,000	294,000,000	294,000,000
Storage Capacity (Gallons)	206,600,000	211,000,000	211,000,000	211,000,000
Fire Hydrants	11,270	11,570	11,905	12,175
Water Reclamation Treatment Capacity	76,000,000	76,000,000	76,000,000	76,000,000
Number of Miles of Lines ⁽¹⁾				
- Water	2,520	2,520	2,520	2,520
- Sewer	1,650	1,690	1,730	1,780

⁽¹⁾ Estimated

Source: City of Albuquerque, Water Utility Department.

<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
489,248	499,684	512,288	525,347	530,600	533,253
156,502	160,135	162,536	167,737	171,130	172,394
3.13	3.12	3.15	3.13	3.10	3.09
34,760,000	34,734,000	32,600,000	32,799,000	31,384,000	31,940,000
30,836,908	30,886,343	29,235,684	29,551,899	27,942,376	28,573,691
95,232,877	95,161,644	89,315,068	89,860,274	85,983,561	87,506,849
160,140,000	163,500,000	151,000,000	153,500,000	149,940,000	149,870,000
609	594	549	536	502	508
294,000,000	294,000,000	294,000,000	294,000,000	294,000,000	294,000,000
211,000,000	211,000,000	211,000,000	211,000,000	211,000,000	211,000,000
12,413	12,771	13,062	13,435	14,093	14,093
76,000,000	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
2,520	2,520	2,520	2,520	2,520	2,520
1,780	1,820	1,820	1,820	1,820	1,820

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
DEMOGRAPHIC STATISTICS

Population

<u>US Census</u>		<u>Bernalillo County</u>	<u>% Inc/Dec from Prev. Yr.</u>	<u>City of Albuquerque</u>	<u>% Inc/Dec from Prev. Yr.</u>	<u>State of New Mexico</u>	<u>% Inc/Dec from Prev. Yr.</u>
2007	**	644,023	2.52%	526,694	3.35%	2,053,923	2.11%
2006	**	628,188	2.23%	509,621	2.19%	2,011,406	2.14%
2005	**	614,508	4.13%	498,716	4.89%	1,969,291	3.66%
2004	**	600,439	1.74%	486,676	2.36%	1,929,713	1.57%
2003	**	590,153	1.35%	475,447	1.72%	1,899,846	1.05%
2002	**	581,118	1.94%	466,419	2.15%	1,876,287	1.32%
2001	**	571,440	0.92%	455,848	1.03%	1,852,740	0.50%
2000	*	553,002	0.84%	450,372	6.87%	1,821,656	0.76%
1999	**	551,298	0.31%	420,578	-0.19%	1,808,082	0.81%
1990	*	100,244	-76.15%	386,988	16.24%	1,515,069	16.26%
1980	*	420,262	33.09%	332,920	36.16%	1,303,143	28.13%
1970	*	315,774	20.43%	244,501	21.53%	1,017,055	6.94%
1960	*	262,199	NA	201,189	NA	951,023	NA

* Source: Bureau of the Census

** Source: Bureau of Business and Economic Research-estimates

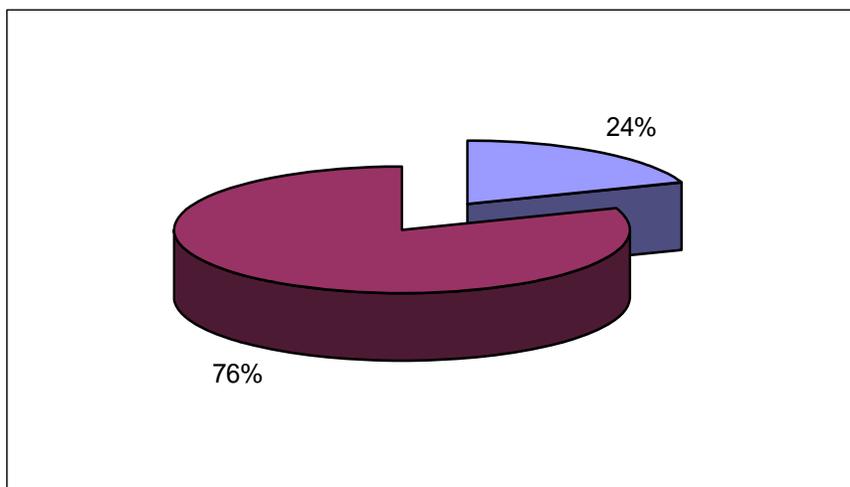
Unemployment

<u>Calendar Year</u>	<u>-----Bernalillo County-----</u>			<u>-----Unemployment Rates-----</u>		
	<u>Civilian Labor Force</u>	<u>Number Employed</u>	<u>Number Unemployed</u>	<u>Bernalillo County</u>	<u>New Mexico</u>	<u>United States</u>
2007	410,473	397,130	13,343	3.30%	3.20%	4.80%
2006	313,406	301,179	12,227	3.90%	4.20%	4.60%
2005	316,477	304,008	12,469	3.90%	4.40%	4.90%
2004	312,140	279,810	14,330	4.60%	5.60%	5.40%
2003	315,152	299,843	15,309	4.90%	5.70%	6.10%
2002	308,907	294,946	13,961	4.52%	5.40%	5.80%
2001	305,169	293,339	10,947	3.59%	4.80%	4.80%
2000	303,158	275,575	9,819	3.24%	5.00%	4.00%
1999	286,588	280,785	11,013	3.84%	5.60%	4.20%
1998	293,804	277,035	13,019	4.43%	6.20%	4.50%

Source: New Mexico Department of Labor

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
TOP TEN MAJOR EMPLOYERS

2008				
	<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>	<u>% of County Employment</u>
1.	Kirtland AFB (Civilian) includes Sandia National Labs, DOE and contractors on or off of base.	Defense	35,690	8.62%
2.	University of New Mexico	Education	15,435	3.73%
3.	Albuquerque Public School	Education	14,000	3.38%
4.	Presbyterian	Hospital	7,315	1.77%
5.	City of Albuquerque	Government	6,500	1.57%
6.	State of New Mexico	Government	5,605	1.35%
7.	Kirtland AFB (Military Active Duty)	Defense	4,860	1.17%
8.	UNM Hospital	Hospital	4,595	1.11%
9.	Lovelace Sandia Health Systems	Hospital	3,400	0.82%
10.	Intel Corporation	Semiconductor Manufacturer	<u>3,300</u>	<u>0.80%</u>
	Total		<u>100,700</u>	<u>24.33%</u>
	Total Non-Ag Civil and Military Employees		<u>413,897</u>	<u>100.00%</u>



Source: Albuquerque Economic Development, Inc.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER AND WASTEWATER USERS BY CLASS AND METER SIZE
LAST TEN FISCAL YEARS

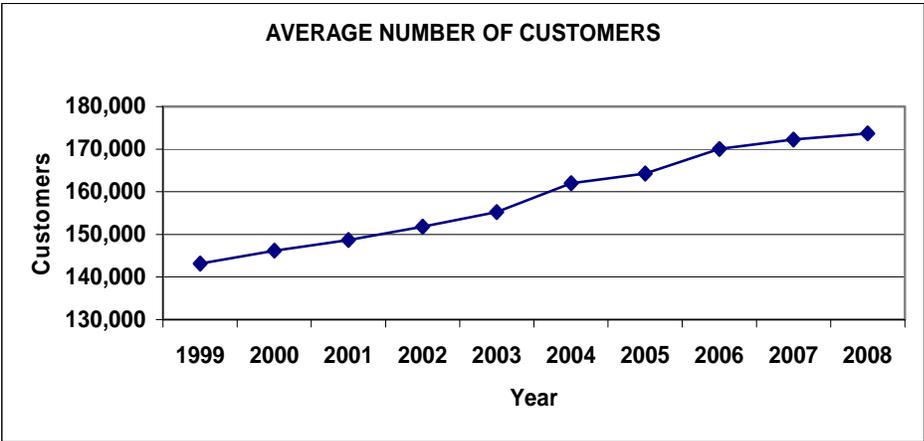
History of Water Users by Class

<u>Class</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Residential	128,738	131,618	134,014	137,081	140,347	146,656	148,974	151,089	152,563	153,959
Multi-Family⁽¹⁾	-	-	-	-	-	-	-	6,812	7,565	7,644
Commercial	12,636	12,767	12,871	12,952	13,033	13,388	13,304	10,065	10,049	9,998
Institutional	1,618	1,638	1,660	1,683	1,712	1,836	1,853	1,981	1,983	2,013
Industrial	<u>129</u>	<u>127</u>	<u>125</u>	<u>124</u>	<u>121</u>	<u>122</u>	<u>114</u>	<u>113</u>	<u>110</u>	<u>110</u>
Total	<u>143,121</u>	<u>146,150</u>	<u>148,670</u>	<u>151,840</u>	<u>155,213</u>	<u>162,002</u>	<u>164,245</u>	<u>170,060</u>	<u>172,270</u>	<u>173,724</u>

History of Water Users by Meter Sizes

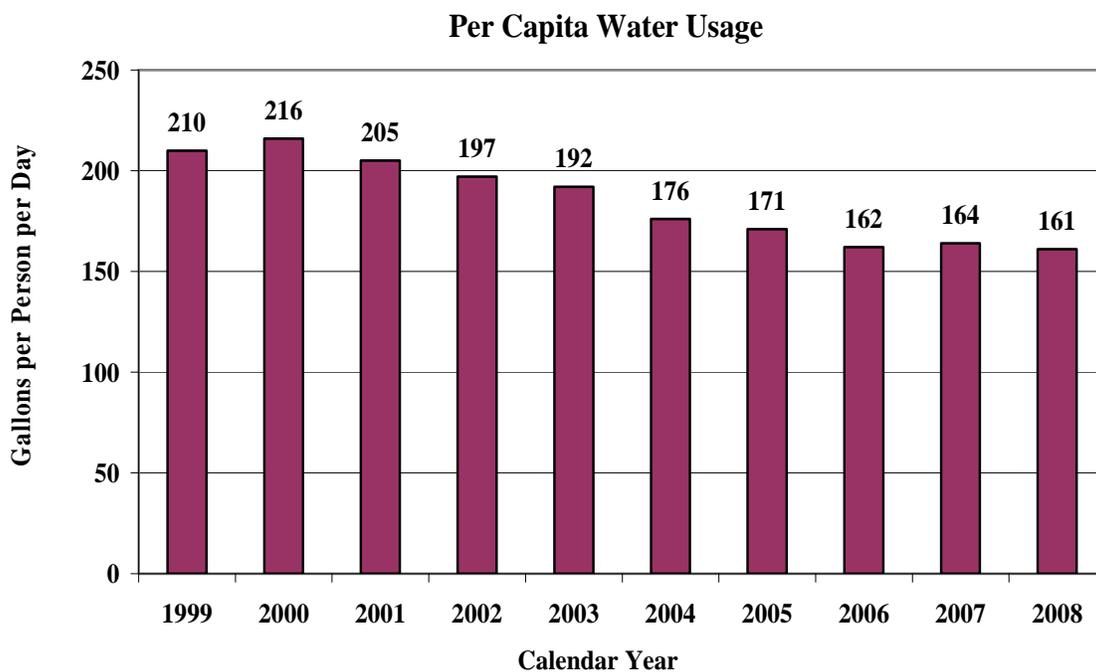
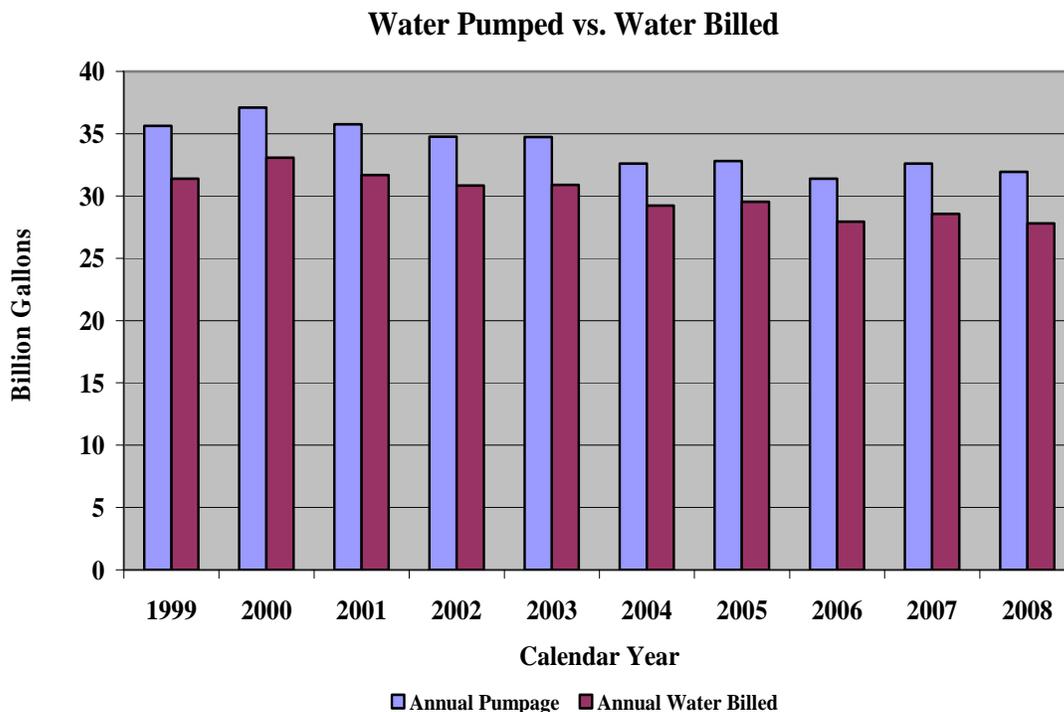
<u>Meter Size</u>	<i>Average Number of Customers by Fiscal Year</i>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
¾"	118,730	121,854	124,523	128,192	132,387	139,351	142,018	146,842	149,846	151,172
1" and 1 ¼ "	20,076	19,899	19,692	19,153	18,321	17,863	17,588	17,773	17,581	17,621
1 ½ "	1,817	1,838	1,846	1,854	1,847	1,854	1,879	1,945	1,955	1,968
2"	1,769	1,822	1,868	1,892	1,905	1,958	1,997	2,509	1,816	1,839
3"	401	404	406	410	412	524	419	654	733	766
4"	233	238	242	246	247	311	251	244	246	264
6"	55	55	55	55	55	73	52	52	53	53
8" and over	<u>40</u>	<u>40</u>	<u>38</u>	<u>38</u>	<u>39</u>	<u>68</u>	<u>41</u>	<u>41</u>	<u>40</u>	<u>41</u>
Total	<u>143,121</u>	<u>146,150</u>	<u>148,670</u>	<u>151,840</u>	<u>155,213</u>	<u>162,002</u>	<u>164,245</u>	<u>170,060</u>	<u>172,270</u>	<u>173,724</u>

⁽¹⁾ The Authority started using this class of user in 2006.



Source: Albuquerque Bernalillo County Water Utility Authority

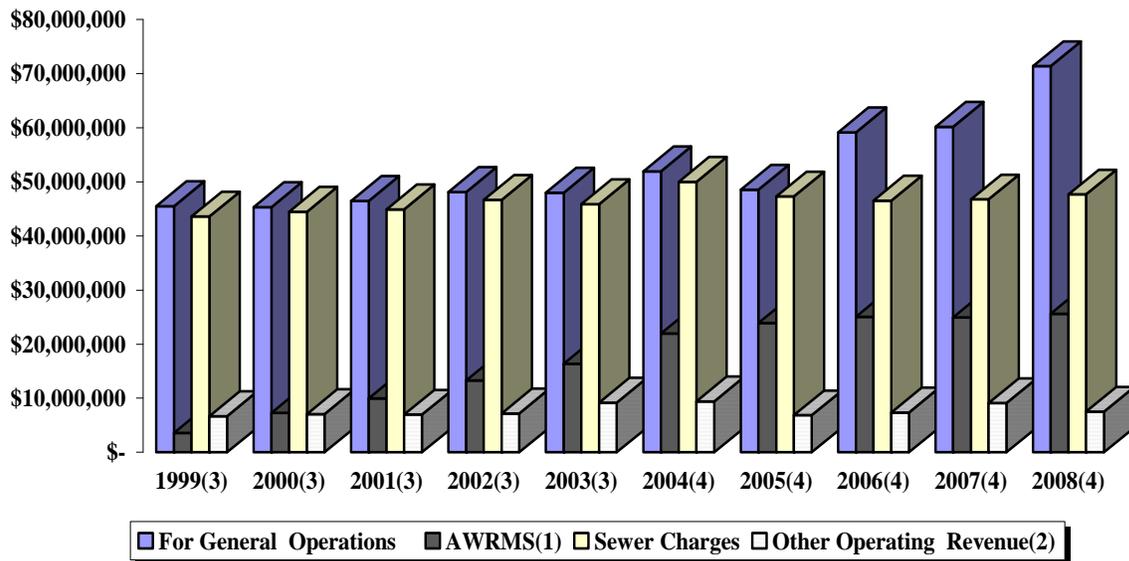
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER CONSUMPTION
LAST TEN CALENDAR YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE FROM WATER AND SEWER CHARGES AND OTHER OPERATING REVENUE
LAST TEN FISCAL YEARS

Fiscal Year	Revenue from Water Charges		Revenue From Sewer Charges	Other Operating Revenue ⁽²⁾	Total Operating Revenue
	For General Operations	For AWRMS ⁽¹⁾			
1999 ⁽³⁾	45,515,854	\$ 3,610,515	\$ 43,605,325	\$ 6,704,614	\$ 99,436,308
2000 ⁽³⁾	45,346,424	7,310,019	44,487,321	7,051,933	104,195,697
2001 ⁽³⁾	46,504,223	9,954,245	44,898,231	6,966,656	108,323,355
2002 ⁽³⁾	48,115,849	13,276,044	46,691,595	7,188,885	115,272,373
2003 ⁽³⁾	48,027,213	16,410,278	45,893,219	9,185,099	119,515,809
2004 ⁽⁴⁾	51,968,803	21,950,195	50,012,413	9,437,552	133,368,963
2005 ⁽⁴⁾	48,560,930	23,904,227	47,310,366	6,846,660	126,622,183
2006 ⁽⁴⁾	59,172,344	25,095,852	46,563,188	7,371,006	138,202,390
2007 ⁽⁴⁾	60,186,959	24,975,068	46,771,690	9,100,112	141,033,829
2008 ⁽⁴⁾	71,398,950	25,630,246	47,683,918	7,519,231	152,232,345



(1) These revenues are attributable to rate increases adopted by City Council to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy (AWRMS).

(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

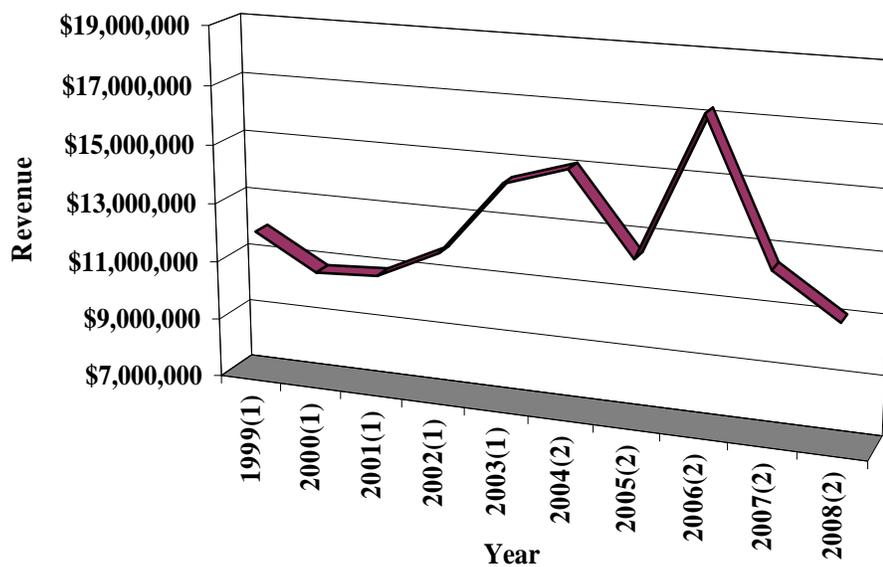
(3) Source: City of Albuquerque Comprehensive Annual Financial Report.

(4) Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE FROM UTILITY EXPANSION CHARGES
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Total Utility Expansion Charge Revenues</u>
1999 ⁽¹⁾	\$ 11,967,761
2000 ⁽¹⁾	10,780,053
2001 ⁽¹⁾	10,908,556
2002 ⁽¹⁾	11,908,616
2003 ⁽¹⁾	14,432,966
2004 ⁽²⁾	15,111,935
2005 ⁽²⁾	12,404,189
2006 ⁽²⁾	17,254,474
2007 ⁽²⁾	12,516,234
2008 ⁽²⁾	11,074,840

Utility Expansion Revenue



Source: (1) Albuquerque Comprehensive Annual Financial Report.
(2) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Reports.

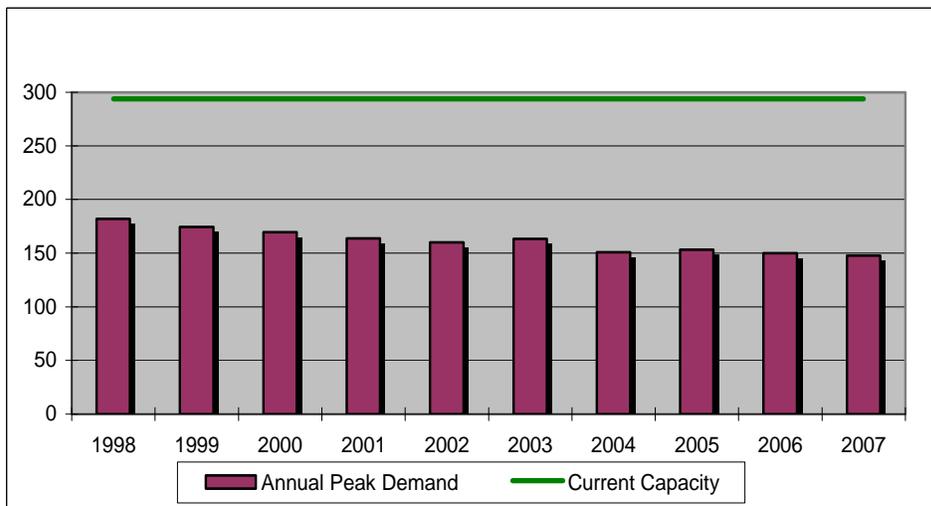
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WATER SYSTEM ANNUAL PEAK DEMAND AND TOP TEN CUSTOMERS

WATER SYSTEM ANNUAL PEAK DEMAND
(calendar year)

◆ *Current system peak demand of 148 MGD*

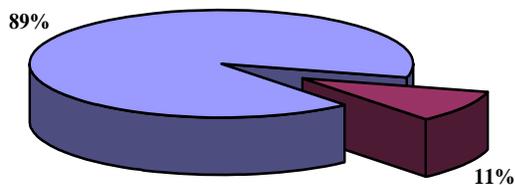
◆ *Current system peak capacity of 294 MGD*

◆ *System's current peak demand is 50% of capacity*



WATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2008 Revenue</u>	<u>% of Total Revenue</u>
1. City of Albuquerque	1,927,086	\$ 6,027,021	6.21%
2. Albuquerque Public Schools	322,670	1,384,736	1.43%
3. Tanoan Country Club	212,920	466,305	0.48%
4. University of New Mexico Physical Plant	155,287	829,600	0.86%
5. Lovelace Health	126,077	502,888	0.52%
6. Presbyterian Health	93,294	581,345	0.60%
7. Albuquerque Academy	82,843	179,735	0.19%
8. Four Hills Mobile Home Park	65,250	199,527	0.21%
9. University of New Mexico Hospital	63,935	350,003	0.36%
10. Towne Park	52,082	136,675	0.14%
Total		\$ 10,521,160	10.84%
Total Revenue for System		\$ 97,029,196	

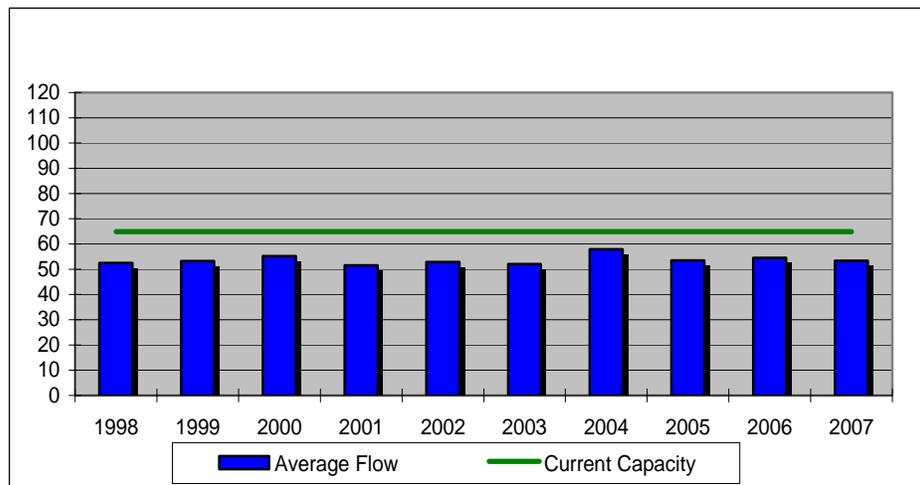


Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW AND TOP TEN CUSTOMERS

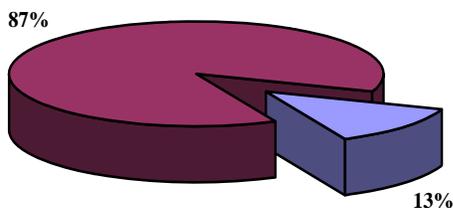
WASTEWATER SYSTEM ANNUAL AVERAGE FLOW
(calendar year)

- ◆ *Current system average flow of 53 MGD*
- ◆ *Current system peak capacity of 65 MGD*
- ◆ *System's current average flow is 82% of capacity*



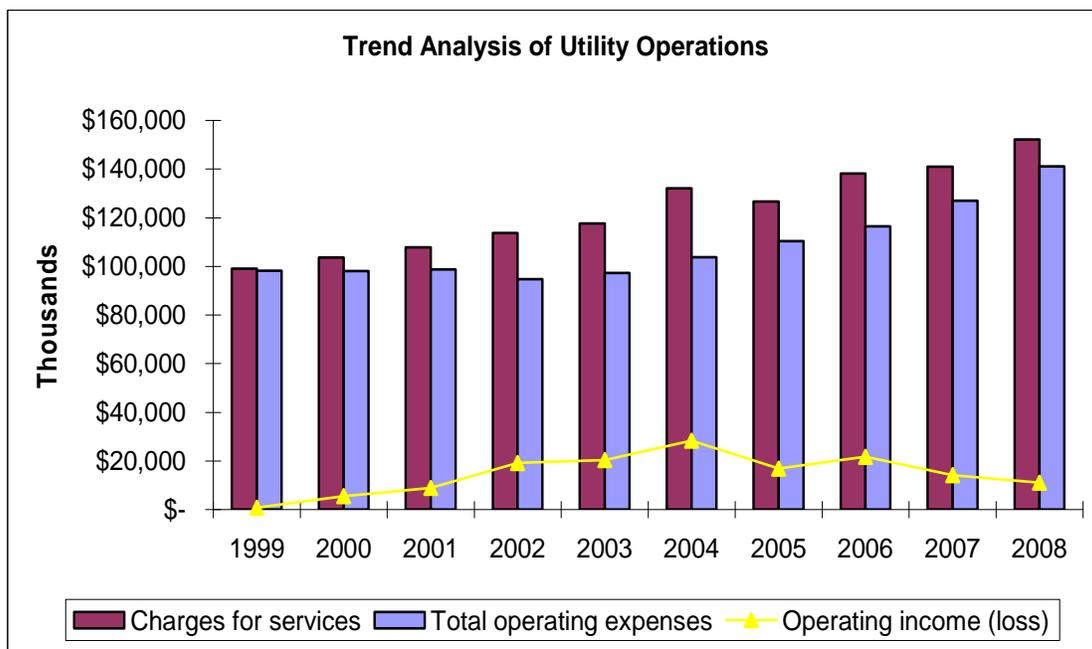
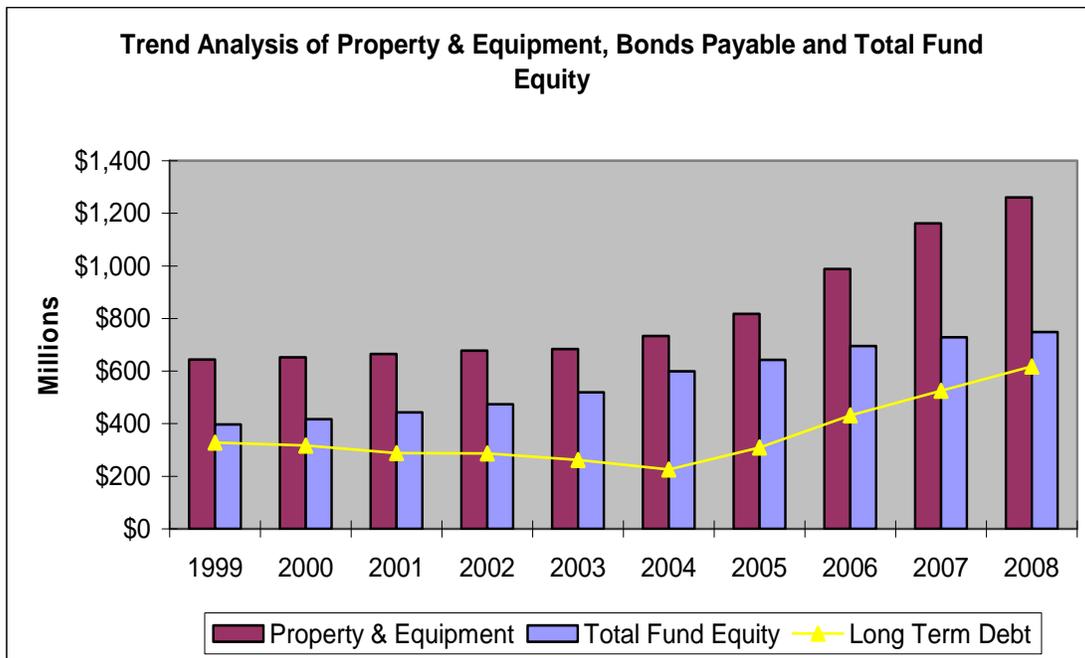
WASTEWATER SYSTEM TOP 10 CUSTOMERS
(fiscal year)

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected 2008 Revenue</u>	<u>% of Total Revenue</u>
1. New Mexico Utilities	2,976,498	\$ 2,938,391	6.16%
2. Kirtland Air Force Base	788,400	890,374	1.87%
3. UNM Physical Plant	472,281	477,542	1.00%
4. City of Albuquerque	214,243	434,911	0.91%
5. Albuquerque Public Schools	128,450	418,583	0.88%
6. Lovelace Health	96,602	121,791	0.26%
7. Sandia Peak Services	89,190	70,610	0.15%
8. University of New Mexico Hospital	69,672	185,847	0.39%
9. Presbyterian Health	57,340	127,285	0.27%
10. Creamland Dairies	53,910	304,093	0.64%
Total		\$ 5,969,427	12.52%
Total Revenue for System		\$ 47,683,918	



Source: Albuquerque Bernalillo County Water Utility Authority

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
MISCELLANEOUS TREND ANALYSIS
LAST TEN FISCAL YEARS



Source: Albuquerque Bernalillo County Water Utility Authority

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE BOND DEBT SERVICE COVERAGE
LAST TEN FISCAL YEARS
(In thousands of dollars)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Water Utility Authority Revenue Bonds ⁽¹⁾				
Revenues	\$ 114,446	\$ 118,818	\$ 125,002	\$ 129,425
Expenses ⁽²⁾	52,971	53,114	57,815	55,356
Available for debt service	61,475	65,704	67,187	74,069
Debt service	38,599	43,511	44,703	45,919
Debt service coverage ratio	1.6	1.5	1.5	1.6

⁽¹⁾ 1998 - 2003 data is obtained from the City of Albuquerque's Comprehensive Annual Financial Report for the Joint Water and Sewer Fund.

⁽²⁾ Not including depreciation, amortization, payments in lieu of taxes, and bad debt expense.

⁽³⁾ As calculated by RBC Capital Markets, Albuquerque, New Mexico; cash basis.

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007⁽³⁾</u>	<u>2008⁽³⁾</u>	Ratio Required <u>2008</u>
\$	139,937	\$ 150,224	\$ 144,074	163,278	162,390	166,580	
	57,315	55,892	59,005	61,932	65,336	72,541	
	82,622	94,332	85,069	101,346	97,054	94,039	
	47,516	49,179	52,279	55,641	62,027	61,785	
	1.7	1.9	1.6	1.8	1.6	1.5	1.3

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
(In thousands of dollars)

Components of Net Assets	Fiscal Years				
	2004	2005	2006	2007	2008
Invested in capital assets, net of related debt	\$ 517,181	\$ 566,451	\$ 609,955	\$ 666,487	\$ 698,063
Restricted for debt service	10,393	11,491	12,919	6,003	-
Restricted for construction	17,576	26,621	5,539	-	10,553
Unrestricted	54,949	37,444	65,804	56,465	40,019
Total Net Assets	\$ 600,099	\$ 642,007	\$ 694,217	\$ 728,955	\$ 748,635

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
OUTSTANDING DEBT RATIO
LAST FIVE FISCAL YEARS

<u>Outstanding Obligations</u> (in thousands of dollars)	Fiscal Years				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenue bonds, net	\$ 213,188	\$ 182,194	\$ 289,213	\$ 389,871	\$ 418,114
Loan agreements	26,029	147,928	159,712	152,529	219,780
Water rights contract	19,990	19,197	18,381	17,539	16,672
Total outstanding obligations	<u>\$ 259,207</u>	<u>\$ 349,319</u>	<u>\$ 467,306</u>	<u>\$ 559,939</u>	<u>\$ 654,566</u>
Number of Customers ⁽²⁾	162,536	167,737	171,130	172,394	175,202
Average debt per customer	\$ 1,595	\$ 2,083	\$ 2,731	\$ 3,248	\$ 3,736
Estimated population ⁽²⁾	512,288	525,347	530,600	533,253	535,919
Per Capita debt	\$ 506	\$ 665	\$ 881	\$ 1,050	\$ 1,221
Per capita income ⁽¹⁾	\$ 28,793	\$ 29,988	\$ 31,434	\$ 33,161	\$ 34,032

⁽¹⁾ Based on information provided by Bureau of Business and Economic Research (BBER),
University of New Mexico

⁽²⁾ Based on calendar years

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
REVENUE RATE COMPARISONS

		Monthly Wastewater Charges								
		-----5/8-Inch Meter-----					2-Inch Meter	4-Inch Meter	8-Inch Meter	
City	Effective Date	Residential	Residential	Residential	Residential	Residential	Non-manuf./	Commercial/	Industrial	Industrial
		0 cf (0 gal)	500 cf (3,740 gal)	1,000 cf (7,480 gal)	1,500 cf (11,220 gal)	3,000 cf (22,440 gal)	Commercial 3,000 cf (22,440 gal)	Light Industrial 50,000 cf (374,000 gal)	1,000,000 cf (7,480,000 gal)	1,500,000 cf (11,220,000 gal)
Albuquerque, NM	07/1/04	\$8.00	\$12.08	\$16.15	\$20.23	\$32.45	\$24.45	\$622.10	\$10,353.60	\$17,448.69
El Paso, TX	03/1/04	9.09	10.23	19.93	20.49	38.73	43.29	625.93	11,590.46	17,614.06
Englewood, CO	01/1/06	11.04	11.04	12.12	19.05	38.10	45.73	647.77	12,955.36	19,433.04
Irving, TX	10/1/04	3.97	8.31	17.82	23.50	47.37	47.68	839.68	16,827.04	25,242.04
Laredo, TX	10/1/97	8.50	8.50	12.08	16.00	28.26	36.94	626.02	19,003.50	28,802.30
Mesa, AZ	08/1/05	8.39	8.80	9.20	9.61	10.82	11.25	121.98	2,432.38	3,648.38
Oklahoma, OK	10/1/05	0.00	14.06	28.15	42.19	84.37	84.37	1,429.37	28,196.72	42,418.72
Salt Lake City, UT	07/1/04	4.96	6.20	12.40	18.60	37.20	37.20	735.00	20,000.00	30,000.00
Scottsdale, AZ	07/1/04	10.88	10.88	14.53	21.30	41.60	40.79	664.10	13,263.04	19,894.06
Wichita, KS	01/1/03	2.96	8.27	13.58	18.89	34.82	34.82	539.62	10,662.81	16,017.79
		Monthly Water Charges								
Albuquerque, NM	07/1/04	\$9.62	\$15.77	\$21.91	\$28.06	\$46.50	\$51.42	\$711.61	\$13,283.54	\$22,396.69
Austin, TX	11/1/04	4.00	9.70	18.27	29.96	91.71	76.71	1,222.26	21,127.60	31,736.90
Denver, CO	01/1/05	4.26	10.66	17.05	23.45	46.52	38.59	598.22	11,507.11	17,328.12
El Paso, TX	03/1/04	4.31	5.48	11.33	16.01	78.20	60.41	1,597.79	40,726.22	67,984.37
Mesa, AZ	08/1/05	9.68	16.94	24.19	31.45	63.34	53.21	751.60	14,605.37	22,044.61
Oklahoma City, OK	10/1/05	4.75	11.89	19.04	26.18	47.61	47.61	737.47	14,358.72	21,502.12
Phoenix, AZ	03/2/05	5.16	6.06	12.48	20.28	43.68	43.68	781.50	15,638.96	23,443.05
San Antonio, TX	01/1/06	6.11	14.90	23.70	33.85	76.70	65.60	993.33	19,071.73	28,859.20
Tulsa, OK	10/1/04	3.85	9.79	17.71	25.63	47.41	42.13	659.15	9,382.79	14,096.46
Tucson, AZ	07/12/04	5.35	10.70	16.05	21.40	76.00	51.25	780.41	15,145.84	22,785.71

Source: Reprinted from 2006 Water and Wastewater Rate Survey, by permission. Copyright © 2007, American Water Works Association.

STATE COMPLIANCE AND OPERATIONAL FINDINGS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Albuquerque Bernalillo County
Water Utility Authority and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

We have audited the accompanying basic financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a component unit of the City of Albuquerque, New Mexico, as of and for the year ended June 30, 2008, as listed in the table of contents and have issued our report thereon dated February 9, 2009. We have also audited the budgetary comparison as of, and for the year ending June 30, 2008, as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting as items 02-21, 06-12, 07-10, 08-05, 08-06, 08-07, 08-09, 08-10, and 08-16.

Albuquerque Bernalillo County
Water Utility Authority and
Mr. Hector H. Balderas
New Mexico State Auditor
Santa Fe, New Mexico

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported under *Government Auditing Standards July 2007 Revision* paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and questioned costs as items 05-13, 08-02, 08-12, and 08-13.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the City Council, the Office of the State Auditor, the New Mexico Legislature, the New Mexico Department of Finance and Administration and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
February 9, 2009

REPORT ON INTERNAL CONTROL

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008

02-21 Capital Assets Deletions

Condition. During our testwork of deleted equipment assets and during an observation of assets on the fixed asset listing prior to July 1, 2007, we noted the following:

Out of a sample size of 50 disposals tested,

- Sixteen assets with a total historical cost of \$885,995 were disposed of without a surplus/salvage form authorizing the disposal.
- Of the sixteen assets not authorized with a surplus/salvage form, one asset with a historical cost of \$123,800 was documented as being disposed of in 2001, but it remained on the listing until FY 2008.
- Five assets with a total historical cost of \$202,767 that were purchased in FY 2008 were erroneously removed from the capital asset listing in FY 2008.

Out of a sample of 15 assets observed on the listing prior to July 1, 2007,

- We were unable to verify the existence of three assets on the listing with a historical cost of \$16,541. All three assets were fully depreciated in a prior year.

Criteria. The City's policies and procedures require the departments to submit a salvage form to the accounting department prior to removing the asset from the general ledger. The departments are also required to keep track of capital asset disposals and report back to the accounting department on a yearly basis. Good accounting practice requires authorization and retention of fixed asset deletion support.

Effect. Without proper authorization and recording of fixed asset deletions, the City's risk of asset misappropriation increases. There is also potential for the overstatement of assets that no longer exist and remain on the listing.

Cause. The retention of documents is maintained in a number of departments and locations. Employee turnover and the lack of knowledge of employees responsible for such document retention have also contributed to improper record retention. Departments are not consistently reviewing the capital asset listing on a yearly basis to verify existence.

Recommendation. To maintain adequate accountability, the City should obtain and retain proper authorization prior to disposing of assets. We recommend that the policies for proper accounting of capital assets be conveyed to all city employees with the responsibility of accounting for capital asset deletions. Additional training may be necessary to ensure proper procedures are understood and followed. When feasible, city accounting should perform physical observation of assets throughout the year in departments that do not consistently review their capital asset listing.

Management Response. The City concurs with this finding. In FY08, the City began disposing of some assets on a governmental auction website which includes controls to ensure that disposal information is provided to the City Accounting Division. The City will provide additional training to the City's property disposal officers at their next meeting to ensure that Departments retain supporting documentation related to the disposal of capital inventory and other adjustments and that this information is forwarded to the Accounting Division.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

05-13 Audit Report Due Date

Condition. The report was not submitted by the due date. It was received by the New Mexico Office of the State Auditor on April 1, 2009.

Criteria. Per section 2.2.2.9A (1) (d) NMAC Audit Rule 2008, Requirements for Contracting and Conducting Audits of Agencies, annual audit reports are to be received in the Office of the State Auditor on or before December 1st.

Effect. The Authority is not in compliance with the New Mexico State Auditor Rule. Also, late audit reports may affect the Authority's bond ratings, thereby making it more expensive for the Authority to issue debt.

Cause. The implementation of GASB 45 was one of the causes for the delay. The City hired an actuary to assist in the recording of the City's obligation and there were some delays in obtaining the information from the actuary. Also, Accounting needed extra time to identify the excess fund balance in the Operating Grants fund.

Recommendation. The City and the Authority should work to resolve these issues quickly so they do not cause any more delays.

Management Response. The City and the Authority concur with this finding and is taking actions to prevent this situation in the future.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

06-12 Governmental Gross Receipts Tax (GGRT) Accrual in Refuse and Water Utility Authority

Condition. In prior years, there was a difference between what the City reported and paid to the State for governmental gross receipts tax and the tax liability recorded in the general ledger for Refuse and the Water Utility Authority. In the current year, the City has reconciled the difference and has determined that the City under reported and under paid governmental gross receipts tax ("GGRT") to the State in an amount of \$55,652 for Refuse and \$284,734 for the Water Utility Authority.

Criteria. Governmental gross receipts taxes should be collected and submitted to the State of New Mexico in accordance with Section 7-9-4.3, NMSA 1978.

Effect. The City may be liable for penalties and interest for the amount of GGRT underpaid.

Cause. A new billing system was implemented in 2006. The system automatically records the governmental gross receipts tax when bills are created. The City had not determined if the system was correctly calculating governmental gross receipts taxes or if it was properly relieving the accrual when cash receipts are posted. The account balance was not reconciled to the tax return.

Recommendation. Account balances should be reconciled to subsidiary ledgers and/or supporting schedules and variances identified investigated and resolved in a timely manner.

Management Response. The City has requested a managed audit from the New Mexico Tax and Revenue Department and will be filing amended CRS tax returns for the under reported and under paid gross receipts tax owed to the State.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

07-08 Uncollateralized Bank Deposits (Modified and Repeated)

Condition. The City's cash balance on deposit at Bank of America exceeded the FDIC insurance of \$100,000 on June 30, 2008 by \$2,479,759. The bank has only posted \$85,899 of pledged collateral, thus leaving the City's bank accounts under-collateralized by \$1,153,981. The bank has not collateralized "uncollected funds" in the City's accounts. Further, the City has failed to remove its funds from Bank of America as required by the Public Money Statutes. All of the other banks in which the City has deposited funds that require collateralization have collateralized both "collected" and "uncollected funds."

Criteria. The Public Money statutes, 6-10-16 and 6-10-17 NMSA 1978 require the bank to collateralize the City's bank accounts in an amount equal to one half of the public monies in excess of the FDIC insured amount. The Public Money statutes do not differentiate between "collected" and "uncollected" funds. In addition, the Public Money statutes, 6-10-17.1 NMSA 1978 require the City to withdraw its funds from the Bank of America within ten calendar days after the bank failed to post the required collateral.

Effect. The City has cash on deposit at the bank that is at risk of loss in the case of bank failure. The City is also not in compliance with the New Mexico Public Money statutes.

Cause. The Bank of America has relied upon an advisory opinion from the Federal Deposit Insurance Corporation (FDIC) that is not germane to the issue of whether the City's bank balances at Bank of America are adequately collateralized pursuant to the New Mexico Public Money statutes cited in the criteria. The advisory opinion from FDIC is just that: an opinion. It does not carry the same authority as a law and it is subject to being overturned by a higher authority.

Recommendation. Demand the bank post collateral for the City's accounts pursuant to the Public Money Statutes. If the bank continues to refuse to comply with the Public Money Statutes within the ten days provided by 6-10-17.1 NMSA 1978, the City must withdraw its funds from the bank within the next ten days.

Management Response. The City's fiscal agent assigns collateral to our deposit accounts in the basis of collected balances. These are the funds to which the City has legal claim. Further, the fiscal agent collateralizes 100% of collected balances, well in excess of the 50% Statutory requirement (6-10-17). The City has no claim to uncollected ledger balances. This position is affirmed not only by our fiscal agent, but also by the FDIC. In its Advisory Opinion FDIC-87-41 dated November 30, 1987 (concerning uncollected funds during a bank closing), the FDIC clearly states two points; Uncollected funds are not considered part of the depositor's balance; and the FDIC ultimately serves as trustee and remitter for uncollected deposits, thus rendering collateral for these uncollected deposits redundant and unnecessary.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

07-10 Purchase Cards (Modified and Repeated)

Condition. The City recorded 16,781 purchase card (P-Card) and travel card (T-Card) transactions during this fiscal year. We reviewed a sample of 24 P-Card transactions and the followings were noted: Three transactions totaling \$ 1,104.18 were not reviewed and signed off by the Director or designee thereof of the relevant department. One item pertaining to purchase of certificate plaques by the Fire Department in the amount of \$101.94 was charged to a default activity of station renovation and rehabilitation and was not corrected to reflect it as AFD Headquarter expenditure. Two items pertaining to amount spent on business lunch by the Economic Development Department for \$32.79 and \$110.41 were coded to supplies. The City paid gross receipt tax totaling \$34.89 on three transactions. The City did not have a current P-card agreement for one of the employee whose P-card purchase transaction was part of the test. In addition to the 24 transactions, an additional nine transactions were specifically reviewed to follow up on practice of splitting the purchase transaction to avoid exceeding \$1,000 limit on P-Card purchases, which had been part of the prior year finding. Out of nine items reviewed, three were found to be items totaling \$1,035.23 which were split to avoid exceeding \$1,000 limit on single purchase. However, the City's accounting department appears to be monitoring split purchase transactions diligently, as the employee in question had been already warned in writing on this particular instance before auditors picked these transactions for review.

Criteria. The City's Policies and Procedures over P-Card purchases require that there is pre-approval on all purchases, the log/reconciliation and EAGLS-WORKS/ reconciliation of P-Cards purchased to be reviewed on a weekly basis. Individual purchases are not supposed to be split into two or more transactions to avoid the \$1,000 limit set for P-Card transactions. The City is exempt from paying gross receipts tax on goods.

Effect. There is a risk of unauthorized purchases being made and an increased risk of fraud.

Cause. It appears there is a lack of adequate formal training dealing with P-Card use and the policies and procedures governing P-Cards are not being enforced at all levels.

Recommendation. We recommend that management emphasize that P-Card policies and procedures are to be adhered to in all cases. Management should review P-Card transactions on a periodic basis to identify patterns of reoccurring transactions that could be potentially set up as a contract. Card holders should notify management when tax has been paid so a tax-exempt certificate can be issued.

Management Response. The City concurs with this finding. In September of 2007, the City implemented new P-Card software (Works). Controls have been established in the new software that require Departments to review, reconcile, and approve their P-Card transactions before their P-Card credit limits are replenished. The City's Purchasing and Accounting Divisions continue to provide additional training to the P-Card users and coordinators at formal training sessions and the Purchasing User Group meetings to ensure compliance with City P-Card policies, including split purchases and the payment of gross receipts tax. Additional, beginning in April 2008, the Accounting and Purchasing Divisions implemented a monthly single transaction audit to identify violations regarding split purchases. As of June 30, 2008 seven split purchases were identified and the respective cardholders, card coordinators and department directors were informed and asked to file a formal response to the violations.

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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-02 Manual Payroll Checks Handling

Condition. During our design and implementation of internal control test work, we noted that the payroll techs are authorized to pick up manual payroll checks from the information systems department (ISD). This may create a lack of segregation of duties in that a payroll tech that processes a manual check may also be the one who picks it up from ISD.

Criteria. Good internal controls require segregation of duties between those who process transactions from those who handle the related assets.

Effect. There is an increased risk of theft.

Cause. Current procedures allow payroll techs to pick up manual checks.

Recommendation. Policies and procedures should be changed to provide a segregation of duties, so that payroll techs are no longer authorized to handle the checks that they process. Only personnel who do not process payroll should be authorized to pickup and distribute checks to employees.

Management Response. The City concurs with the finding and has already implemented the necessary changes. An assigned DFAS employee now picks up the manual payroll checks from ISD. The checks issued are than compared to a copy of the check register provided by the Payroll Office. The payroll register is signed as acknowledgment that this control procedures has been performed. The payroll checks are then submitted to the payroll techs for distribution at the payroll office front counter. When the employee picks up the check they sign the register that we verified against. This signed register is retained by Payroll.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-05 Financial Reporting – Documentation of Duties

Condition. The financial closing and reporting process is well established but is not well documented in policies and procedures, including the identification and updating of internal and external financial reporting requirements and deadlines; the methodology, format, and frequency of required analyses; and the content of reporting packages from departments and component units. Also, roles and responsibilities in the financial closing and reporting process, including a required understanding of the entity's operations and appropriate accounting knowledge, are clearly defined, updated, and communicated to appropriate departments and individuals on a timely basis in meetings, but not in written policies and procedures. There are no written responsibility descriptions by employee. Furthermore, there are close procedures that are in use but have not been updated.

Criteria. Good internal controls include written policies and procedures.

Effect. Turnover of a few key people could be very detrimental to accounting with no documented procedures and tasks by position. This could also contribute to higher risk of management override.

Cause. Turn over of accounting personnel in recent years has created a backlog of work. Accounting has made great progress in catching up, but updating of written procedures over the reporting process has not yet been done.

Recommendation. Financial close and reporting processes should be documented and written job descriptions for accountants' responsibilities in this process should be created.

Management Response. The City concurs with the finding and will implement the auditor recommendation. The financial closing and reporting process will be documented for the new ERP system and the accountants' responsibilities in this process will be documented in written job descriptions.

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A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-06 Bonding Employees Who Handle Investments

Condition. At this time, there is general insurance and the Treasurer is bonded; however, an employee such as the investment manager, who has access to investments and is responsible for the initiation of transactions, is not bonded.

Criteria. Good internal controls include protecting the City's assets from loss.

Effect. There is a risk of uninsured loss.

Cause. Although the Treasurer approves the investment transactions and is ultimately responsible for the investments of the City, he or she does not handle the day to day transactions, but rather has delegated this responsibility. Current policies do not include bonding these employees for loss.

Recommendation. The City's investment policy should require all personnel with access to investments to be bonded.

Management Response. The City concurs with the finding. Currently the Treasurer is bonded for investment activities and all other City employees are insured against losses due to criminal activity. We have requested a quote to bond all treasury staff who handle the City's investments and will bind that coverage when we receive the quote.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-07 Risk Management – Claims Paid Segregation of Duties

Condition. During our internal control test work we noted the following:

- Risk managers have access to enter claims.
- There is no reconciliation of final paid claims to the amount of claim approved by the Claims Review Board (CRB).

Criteria. Good internal controls over paid claims include timely closing out of closed claims. Good internal controls and City policies include approvals for paid claims and maintaining supporting documentation for paid claims.

Effect. There is an increased risk of improper payments being made without timely detection.

Cause. Claims managers must view the claims system to do their job, but the system does not have the ability to restrict claims managers from entering new claims. Current policies and procedures do not provide for a final reconciliation of final claims paid to amounts approved by the CRB

Recommendation. Risk Managers' access to enter claims should be restricted and someone independent of claim processing should reconcile total claim approved by the Claims Review Board to total claims paid to claimant.

Management Response. Risk Management's claim system, Gensource, does not have the capability to restrict creation of claims without restricting access to claims. The system does record an internal stamp of the person who opens and closes the claim. Risk Management is creating a report that will list all of the claims opened and closed for a specific period. This report will also contain the name of the person who performs those functions for each claim. The claim opening and closing authorities in our office are assigned to different positions; authorized clerical people open claims and adjusters or their immediate supervisor close them. This report will enable Risk Management to assure that opening and closing functions are properly managed.

The minutes and authorization forms from CRB meetings are used to maintain a database of the Board's settlement authorizations. Risk Management is implementing a procedure to assure that the terms of settlement for CRB authorizations are recorded in the database. As part of this procedure, a report will be maintained which will contain all claim settlements approved by the CRB, the amount of the approved settlement, and the date and amount of the final payment. This report will be delivered on a quarterly basis to the CRB.

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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-09 Environmental Liabilities

Condition. During our design and implementation of internal control test work, we noted that there are no policies in place to ensure that environmental obligations or contingent obligations are reported in the City's financial statements.

Criteria. According to NCGAS 4, Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences, claims and assessments should be recorded in the financials of the City if the contingent liability is probable and estimable. Otherwise, contingent liabilities should be disclosed in the footnotes to the City's financials.

Effect. There is a risk that the City may incur obligations or contingent obligations related to environmental remediation that will not be properly recorded and/or reported in the City's financial statements.

Cause. Various departments and divisions manage environmental issues that may result in contingent liabilities to the City, and there is no process in place to communicate these potential liabilities to the Accounting Division.

Recommendation. The Environmental Department should periodically provide accounting with information regarding actual and potential obligations related to environmental remediation.

Management Response. The City concurs with the finding. The City will write an administrative instruction that requires departments to provide the Accounting Division with information regarding actual and potential obligations related to environmental remediation.

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A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-10 Risk Management - Claims

Condition. During our paid claims test work, we noted the following out of seven claims tested:

- For one closed claim, the file was not closed in the system within a reasonable amount of time after final claim was paid. The claim was closed approximately five months after final payment.
- For one claim paid for damages to a police car, there was no evidence in the file of approval to pay and there was no supporting documentation, such as an accident report or an adjuster's estimate.

The City's policies do not include when approvals for paid claims are required and also do not address how supporting documentation for paid claims is to be maintained.

Criteria. Good internal controls over paid claims include timely closing out of closed claims. Good internal controls and City policies include approvals for paid claims and maintaining supporting documentation for paid claims.

Effect. There is a risk that the City may pay for false claims. Additionally, the claims reserves may be overstated because the reserves for closed claims are included in the City's estimate.

Cause. Risk management uses a third party claims adjuster (TPA), and the TPA fell behind on processing claims during the year, thereby delaying the close out of claims.

- The Police Department (APD) must keep a minimum amount of police vehicles on the streets for public safety, and at times, APD does not have enough vehicles in its fleet to wait for Risk Management to approve a claim. Therefore, the Department permits its employees to proceed with the repairs and then subsequently submit the claim to Risk Management.

Recommendation. Closed claims should be timely closed in the system and the reserve removed. Additionally, employees should not be permitted to proceed with repairs of City vehicles before approval by a Risk Management adjuster. The adjuster should obtain evidence of damages and estimates of repairs and place these in the file before claim is paid. In the case of public safety vehicles, procedures should be put in place to provide for expedient repairs to these vehicles while ensuring that Risk Management's procedures are still followed.

Management Response. The challenge faced by our TPA resulted in at least one claim remaining open beyond the normal closing time period. Staff was not aware of this issue and will take steps to monitor the function more closely. Staff will modify an existing report that lists all open claims and add a date of last payment. Staff will flag any claims with a two month gap between the last payment and the report date and investigate the reason the claim has not been closed.

Risk Management is conducting an internal audit to determine whether this issue of a claim file lacking adequate approval and/or accident documentation is isolated and if not how frequently it happens. Risk Management is developing a checklist of required documentation that must be in the claim file before any claim can be closed. Staff will meet with the TPA, and Fleet Management to reinforce our procedures requiring approval from the adjuster prior to commencement of repairs.

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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-12 Noncompliance with the New Mexico State Public Money Law Requirements

Condition. During the fiscal year, the City Treasurer's Office processed 9,595 transactions where the City received money. The auditors selected 18 of these transactions for a test of cash receipts. The auditors noted that one of the items pertaining to a check for rent received for a City property in the amount of \$534.03 was not deposited to the City's treasury in a timely manner. We were unable to determine when the City actually received the check which was dated April 9, 2008. However, from an internal memorandum reviewed, we noted that the City's Real Property Division had forwarded the check to the Department of Municipal Development (DMD) on April 15, 2008 instructing to deposit it. The check was not deposited to the City's Treasury until May 19, 2008, i.e. 34 days after it was forwarded to the DMD.

Criteria. The New Mexico Public Money statutes, Section 6-10-3 NMSA 1978 requires all public money to be deposited before the close of the next succeeding business day after the receipt of the money.

Effect. The City is not complying with the State's Public Money statutes. Receipts that are recorded and/or deposited in an untimely manner are susceptible to fraud and/or misuse.

Cause. One of the employees of the DMD had been loaned to work at a different department of the City for part of the week during the time of this instance, which appears to have caused a delay of about a week. The cause for the remainder of the delay could not be determined.

Recommendation. The City should deposit all receipts of the money to the City's Treasury or the bank, whichever is applicable, before the close of the next succeeding business day after the receipt of the money. Personnel in charge of such task should diligently ensure that the public monies are deposited in a timely manner.

Management Response. The City agrees with the finding. All City employees that handle cash receipts are required to attend a class on cash handling procedures where the requirement to deposit cash receipts by the next business day is discussed. The individuals involved will be reminded of this state statute requirement.

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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-13 Capital Asset Additions

Condition. During our testwork of capital asset equipment additions we noted the following:

Out of a sample size of 23 additions tested,

- The serial number for one asset in the capital asset system did not agree with the serial number on the title and invoice related to the purchase of that asset.
- One asset capitalized in the amount of \$69,050 was not supported with any documentation to verify the cost of the asset or the acquisition date. The asset was recorded by Accounting after a site visit. The asset was located at the shooting range, but it was not found on the fixed assets listing. Because it was believed to be a donated asset, it was recorded as a donated asset in this year. However, after further investigation, it was noted that the equipment, with a cost of \$77,761 was purchased and probably included in CWIP in 2007 and was most likely capitalized in buildings upon the shooting range's completion. Therefore, the asset was recorded twice.
- There was one asset, in the amount of \$34,095, out of eleven additions physically observed for which we were unable to satisfy ourselves that the asset on the fixed assets listing was actually the asset we observed. The asset we observed was not tagged nor did the serial number on the asset agree with the fixed assets listing.

Criteria. The City's policies and procedures require the departments to mark capitalized equipment with an asset number or other identifying characteristic that will allow it to be traced from the capital asset records to the physical asset. Good accounting practice requires congruence between the capital asset listing and actual physical existence and for the retention of appropriate supporting records.

Effect. Fixed assets and donation revenues are over stated by \$69,050 and the equipment purchased in the amount of \$77,761 is misclassified in buildings on the fixed assets listing. Without proper recording of capital asset additions, the City's risk of asset misappropriation increases. In addition, if the asset can not be identified in the system upon disposal due to errors such as an inaccurate serial number, capital assets may be overstated. If the assets are purchased with federal funds, the lack of support for the asset could jeopardize future funding and result in non-compliance in equipment handling by the City.

Cause. The capital projects system of tracking individual assets in CWIP is not adequate. Documents retained to support the capital asset records are maintained in various locations by the different departments of the City. Employee turnover and the lack of knowledge about accounting for capital assets by employees responsible for such document retention have also contributed to improper record retention and recording. Departments are not always diligent about tagging assets with the asset number assigned.

Recommendation. Assets included in CWIP should be tracked and appropriately classified upon completion of CWIP. City employees responsible for capital assets in the various departments must be informed of the importance of proper accounting for those assets from acquisition to ultimate disposition. Additional training may be necessary to ensure proper procedures are understood and followed. When feasible, city accounting should perform physical observation of assets throughout the year in departments that do not consistently review their capital asset listing.

Management Response. The City concurs with this finding that the serial number of the asset in question was off by one digit that was a keying error that has subsequently been corrected. The \$69,050 was discovered by DFAS Accounting during a fixed asset site visit and added to City's inventory records based on a researched cost for a similar. The City has since been able to locate the contract which verified the purchase of the asset. The City will review its fixed asset tagging procedures with the Department that was missing a property tag on its equipment. The City does provide training at the Financial User Groups to departments on the proper accounting of fixed assets.

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SCHEDULE OF FINDINGS AND RESPONSES, continued
Year Ended June 30, 2008

08-16 Bank Reconciliation Process

Condition. The City's bank reconciliations are unnecessarily complex and cluttered with reconciling items that should have been resolved in previous years. For example: the reconciliation for the accounts payable bank account as of June 30, 2008 has as a reconciling item a transaction in the amount of \$4,884,238 that dates back to November 2003. In total, seventy-seven reconciling items amounting to \$5,133,450.17 on the bank reconciliation at June 30, 2007 were still present on the bank reconciliation at June 30, 2008.

Criteria. The New Mexico Local Government statutes, Section 6-6-3 A NMSA 1978 require the City to "... keep all the books, records and accounts in their respective offices in the form prescribed by the local government division." The Local Government Division of the Department of Finance and Administration has, pursuant to this statute, published the Budgeting and Accounting Manual and other guidance for New Mexico municipalities to follow. Concise, easy-to-understand bank reconciliations are part of the records that the City should be maintaining.

Effect. The City has a bank reconciliation process that is unnecessarily complex and which takes more time than it should to reconcile the bank accounts each month. The current process increases the risk of delayed financial information and increases the risk of error.

Cause. A former employee of the City's Accounting Division developed a complex bank reconciliation template on a computerized spreadsheet. This former employee has had to train all three of his successors in the use of the bank reconciliation template. The City employee currently charged with the bank reconciliation task has not been trained completely in the process of preparing the bank reconciliations.

Recommendation. The City is going to implement new accounting software in the near future. If the new software includes a bank reconciliation module, it should be implemented as soon as possible. Before implementing the new software, the old reconciling items in the bank reconciliation should be resolved.

Management Response. The City concurs with this finding and will take immediate steps to research and clear out the old reconciling items.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
STATUS OF PRIOR YEAR AUDIT RECOMMENDATIONS
Year Ended June 30, 2008

FINDINGS FROM YEAR ENDED JUNE 30, 2007:

CURRENT STATUS:

02-21 Capital Asset Deletions	Repeated
05-13 Audit Report Due Date	Repeated
06-12 Gross Receipts Tax Accrual in Refuse and Water Utility Authority	Revised
07-01 Risk Management Disbursements	Resolved
07-08 Uncollateralized Bank Deposits	Revised
07-10 Purchase Cards	Repeated

ALBUQUERQUE BERNALILLO COUNT WATER UTILITY AUTHORITY
A COMPONENT UNIT OF THE CITY OF ALBUQUERQUE, NEW MEXICO
EXIT CONFERENCE
June 30, 2008

An exit conference was held on March 6, 2009, and attended by the following:

AUTHORITY PERSONNEL:

Deanna Archuleta
Chair, Water Authority Board

Mark Sanchez
Executive Director

Stanley Allred
Chief Financial Officer

Cliff Wintrode
Budget Analyst II

MOSS ADAMS PERSONNEL:

Chris Garner
Assurance Senior Manager

Amy Myer
Assurance Manager

CITY PERSONNEL:

Debbie Dombroski
Accounting Manager

Nela Wilkinson
Accounting Systems Coordinator